THE TAXPAYER

Alberta edition — *Promoting the responsible and efficient use of tax dollars* — *Vol 7 no 1/95*

Photos - Toronto Sun

TAX PROTEST HAS AN IMPACT!

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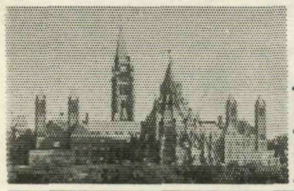


the FEDERAL BUDGET

Budget '95 - the same old tune

by James Forrest

It should not be a surprise to most of us. This year's federal budget strums a familiar tune: higher taxes and more government spending.

That's right. Total federal spending, on programs and interest payments, will actually go up - from $162.9 billion in 1994-95 to $163.5 billion in 1995-96 (it would be even steeper but for accounting smoke and mirrors). Although spending is projected to fall by 1996-97 to $158.6 billion, it is still greater than it was when the Liberals arrived in Ottawa.

How could this be, with all the hullabaloo over spending cuts? Paul Martin's recent budget talks about eliminating 45,000 public sector jobs (only 20,000 individuals over two years will lose jobs, softened by generous severance packages), closing military bases, phasing out agricultural subsidies, reducing regional development agencies, slashing business subsidies, privatizing CN and Petro-Can, decreasing provincial transfer payments and restraining departmental spending.

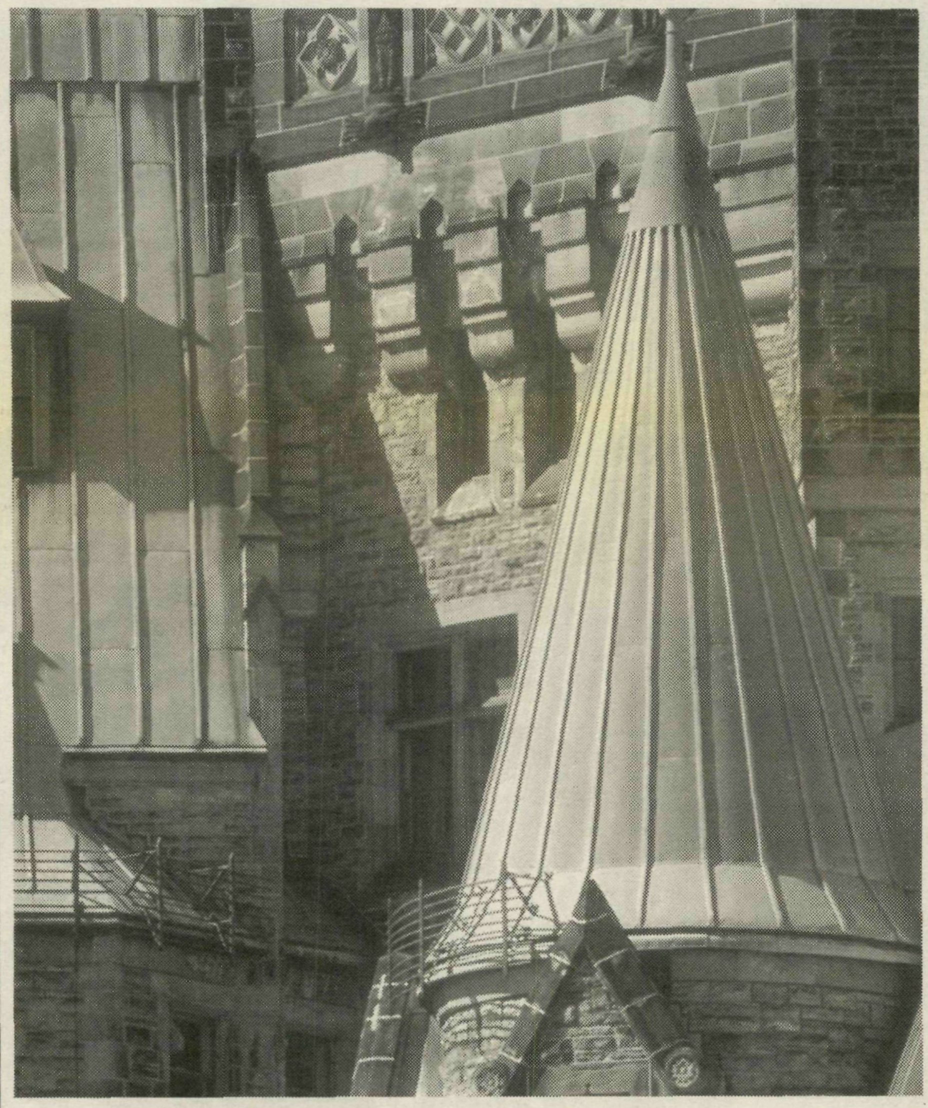
Sound tough? Not really. These highly-touted cuts aren't all that significant.

After all, with the economy firing on all cylinders last year - unemployment insurance spending fell by $3 billion - the Liberals only managed to cut program spending by $1.7 billion! It appears that they're really going for broke now - a whopping $4.3 billion reduction in 1995-96 program spending, followed by $6.1 billion in 1996-97.

It's not enough. One out-of-control expenditure overwhelms these weak efforts. Interest payments on the climbing debt go from $42 billion (1994-95) to $49.5 billion (1995-96) - from 26% of spending to 30%. In 1996-97, debt servicing costs will eat up almost 1 out of 3 dollars the government spends, and will consume almost all of the federal government's personal income tax revenues.

So how does Martin propose to achieve his insufficient deficit target of 3% of GDP by 1996-97, which won't stop the debt from expanding? The same way Finance Ministers have promised to for the last two decades - by hiking taxes and hoping for revenue-generating economic growth.

Revenues are budgeted to come in at $133.2 billion in 1995-96, up $8.2 billion over this year. By 1996-97, Martin hopes to take in $137.4 billion. Consider this: 1994-95 revenues were $9 billion higher than 1993-94 revenues ($116 billion) and the economy grew by 4.25% in 1994, the most of any industrialized nation.



Despite all the rhetoric, federal spending actually went up.

But what if there's a downturn and these revenues stop growing? Ask Martin.

In the meantime, taxes have been bumped up again - an annual ritual in Canada. Last year it was business expenses, capital gains and life insurance benefits. This year? Increased business taxes, limits on RRSPs and jumps in gas prices. Martin's budgets have produced tax measures totalling $3.6 billion over two years, $240 per person.

"Tax fairness"? The biggest hike - $500 million per year - is at the gas pump, affecting Canadians at all income levels. Of course, this means middle class taxpayers will pay the bulk of the tax increase. Again.

Serious fiscal restraint would have helped the Canadian dollar as confidence in Canada's fiscal situation would have been boosted. In turn, interest rates could have been lowered since high rates would not have been needed to protect the value of our currency. A budget tougher on the spending side would thus have added fuel to the fire of already impressive economic growth.

Economic growth results in higher tax revenues for governments, as the income base expands and businesses earn profits. It also reduces government spending, since demand for unemployment and welfare transfers is lessened. It's this scenario that Martin has enjoyed and is banking on.

This pace of growth may not continue and Martin has failed to stoke the fire.

Instead, Canadians are faced with higher debt and exploding interest costs, a tumbling currency and suffocating interest rates and taxes.

Unfortunately, that's the usual story.

James Forrest is a research associate for the Alberta Taxpayers Association. He is based in Edmonton.

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Information:

The Canadian Taxpayers Federation (CTF) is a federally incorporated, nonprofit organization. Our three-fold purpose is 1) To act as a watch dog, and to inform taxpayers of government's impact on their economic well-being. 2) To promote responsible fiscal and democratic reforms, and to advocate taxpayers' common interests. 3) To motivate and mobilize taxpayers to exercise their democratic responsibilities. Founded in 1989, the Federation is independent of all political or institutional affiliations and is entirely funded by its memberships and free-will contributions.

The Taxpayer is published six times a year and is sent out to the associate members of the CTF.

For more information write the Canadian Taxpayers Federation, #105 - 438 Victoria Ave. East, Regina, Sask., S4N ON7, or phone our toll-free number: 1-800-667-7933.

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♦ The Manitoba Taxpayers Association, 1211 Richard Ave., Winnipeg, Man., R3E 3H3, Ph: (204) 772-3199.

♦ The Ontario Taxpayers Federation, #203-339 Westney Road South, Ajax, Ont., LIS 7J6, Ph: (905) 686-4345.

the
FEDERAL BUDGET

The tax bite - Where is it coming from?

Though there was a huge sigh of relief when personal income taxes weren't increased in the federal budget, that's not to say Canadians weren't hit with a massive tax grab.

In this year's budget, the federal government claims it has taken a "balanced approach" to deficit fighting.

That balanced approach means $940 million in extra taxes on Canadians in this budget year, rising to $1.44 billion by 1997-98.

Many of these taxes were directed towards business. Unfortunately, these taxes simply become an extra cost of doing business and are passed onto consumers. Since, consumers are business' main source of income, in the end it's consumers who ultimately pay for business taxes.

The following is a breakdown of this year's new taxes and their three-year impact:

RRSPs:

- RRSP and money purchase pension plan limits will be reduced to $13,500 until 1996-97 and then increased by $1,000 a year until 1999.
- The RRSP over contribution allowance will be reduced from $8,000 to $2,000.
- The retiring allowance rollover will be phased out. The present limit is $2,000 per year of service.
- A payout of locked-in retirement savings plans will allow holders of locked-in RRSPs to purchase Life Income Funds.

3-year impact - $270 million

Eliminate deferral of tax on business income:

Individuals earning business or professional income will now be required to report on a calendar year basis, instead of using any date for their fiscal year end.

3-year impact - $470 million

Family trusts:

Current income-splitting advantages will be eliminated, and the amendment that allowed deferral of the 21 year rule will be repealed.

Impact - prevents tax losses

Restrict SR & ED tax incentives:

The Department of Finance and Revenue Canada are presently evaluating the Scientific Research and Experimental Development (SR & ED) tax incentives. The budget proposes a number of technical changes to the SR & ED tax incentives in the areas of contract R & D, third-party payments and unpaid amounts.

3-year impact - $30 million

Tax on investment income of businesses:

A refundable tax will be levied on the investment income received by a Canadian-controlled private corporation. It will reduce the present deferral advantage to individuals earning investment income through these private corporations instead of earning such income directly.

3-year impact - $280 million

Large business tax:

The rate of the large corporations tax will rise from .2% to .225% of capital used in Canada above $10 million.

3-year impact - $460 million

Business surtax:

The corporate surtax will be increased from 3% of the basic federal corporate income tax to 4%.

3-year impact - $350 million

Temporary capital tax:

The capital tax currently imposed on banks and other large deposit-taking institutions was increased from budget delivery until October 31, 1996.

3-year impact - $100 million

Tobacco tax:

Federal excise rates on cigarettes sold in Quebec and Ontario were increased by 60 cents per carton on February 18, 1995.

3-year impact - $195 million

Gas tax:

The federal excise tax on leaded and unleaded gasoline and aviation gasoline was increased 1.5 cents per litre at midnight, February 27.

3-year impact - $1.5 billion

The MP pension sham continues...

The Chretien government's changes to the MPs Pension Plan, announced February 22, have made it obvious to the rest of Canadians that our politicians will not sacrifice from the top.

CTF Executive Director, Jason Kenney, termed the proposed reforms "weak", and said the situation showed an "appalling lack of leadership."

Arthur Eggleton, President of the Treasury Board, announced changes to the existing plan, which include the establishment of a minimum age of 55 for collecting the pension, elimination of double-dipping for former MPs and Senators returning to work in the employ of government, and a reduction of the government's - read taxpayer's - share of the pension contributions.

Unfortunately, the changes only "tinker at the edges" of the plan. While the boost of minimum age requirement is welcome, the change is not retroactive, so it will not affect the dozens of ex-MPs under age 55, currently collecting a pension.

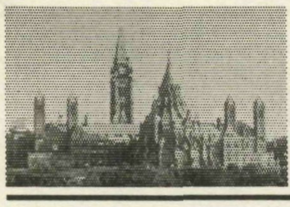
The "double dipping" requisite, again is welcome, but unfortunately is not retroactive either, so those lucky enough to get in under the wire will not have their benefits affected.

Finally, while the government is cutting the taxpayer contribution by a third, the plan is still two-thirds more lucrative than what is available in the private sector, where employee pension contributions are generally matched dollar for dollar.

Kenney says, "For every dollar an MP puts into his pension plan, taxpayers were previously paying almost six dollars. Even if the government's claim of a one-third cost reduction proves true, taxpayers will still be forced to kick in over $28,000 a year for each backbench MP, and considerably more for Ministers."

Kenney added that the announced changes fail to recognize that the entire structure of the plan is out of touch with fiscal reality. He pointed to a 1993 proposal submitted by the CTF for reforms of the pension plan. It advocated a self-funding formula similar to the MLA Money Purchase Plan adopted by the Saskatchewan Legislature in 1979.

"Premier Klein in Alberta set the precedent for retroactive changes in 1993, and there is no reason that Prime Minister Chretien and his colleagues can't follow suit," Kenney concluded.



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The "P" word

After a bit of dallying, a few tentative steps, and couching it in terms of "commercialization", the federal government is finally starting to use the "P" word.

Privatization initiatives announced in the budget were a solid move towards the government taking a reduced role in Canada's business community.

Indications are the sell-offs announced are only the beginning of a broader divestiture program.

In his budget speech, Finance Minister Paul Martin said, "If the government doesn't need to run something, it shouldn't... and in the future it won't."

Petro-Canada shares worth approximately $2 billion ($11.50 a share on the TSE) will be put up for sale when the market improves. The federal government will need more than $13 per share to recoup its original investment.

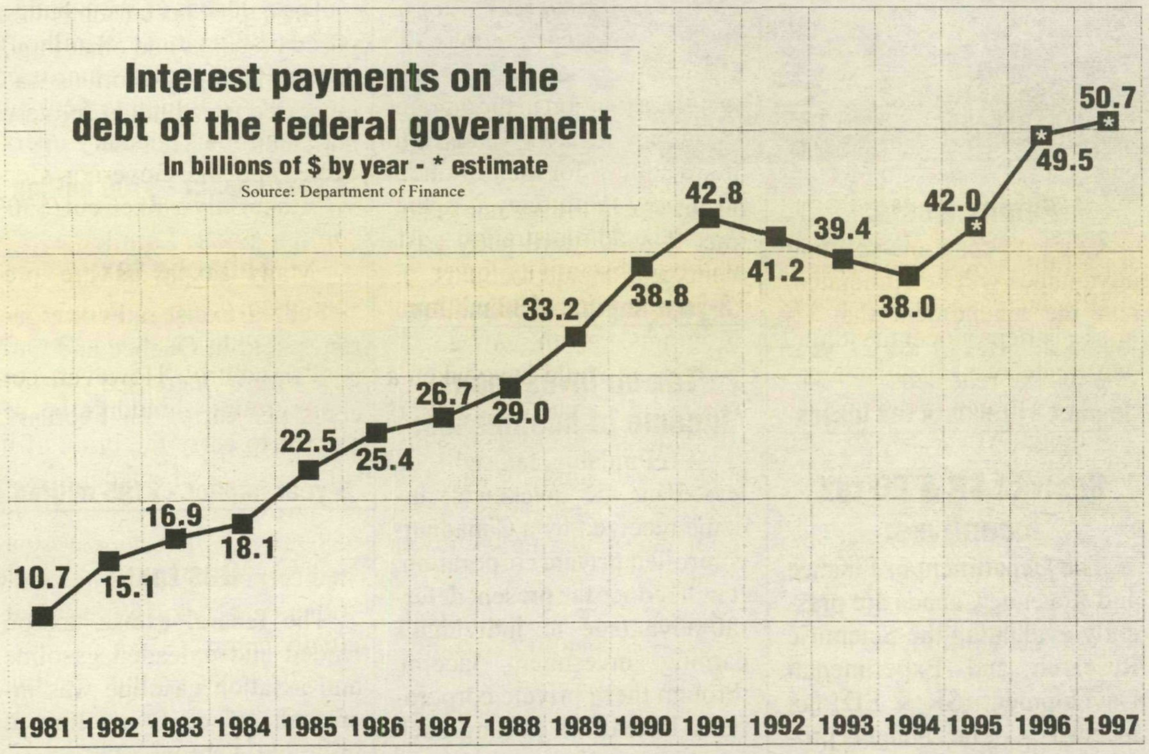
Canadian National Railway has improved its financial picture from a $100-million loss two years ago to a projected $250-million profit this year. Canadian Pacific had made an offer to purchase the rail operations in eastern Canada that was rejected in December. It is expected a public share issue will be made by fall because of a present strong market for transportation services. Estimates on the value of CN put it in the $2-billion range.

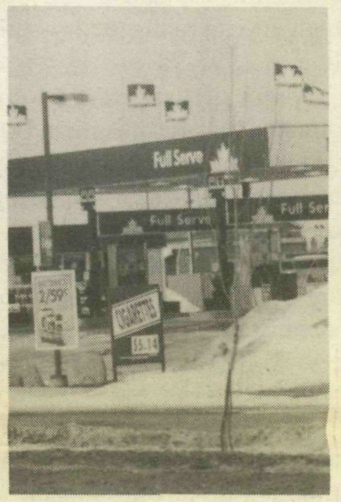
Moving the Air Navigation System (ANS) into the hands of private delivery follows on the heels of the 1994 privatization of airports around the country. The ANS, which is made up of air traffic controllers, radio operators and weather services, will be transferred to a non-profit association. This move should save taxpayers approximately $140 million per year.

The Canada Communications Group, a Special Operating Agency set up by the former Conservative government to function more like a business in offering printing, communications, and advertising to government departments, will be eliminated all or in part. Its services will be put out for tender. The CCG was found in 1994 to be hiding lapsed funds for various federal government departments, despite a clear directive stating this was not allowed.

In the budget documents, Martin also announced several other areas for possible privatization, including:

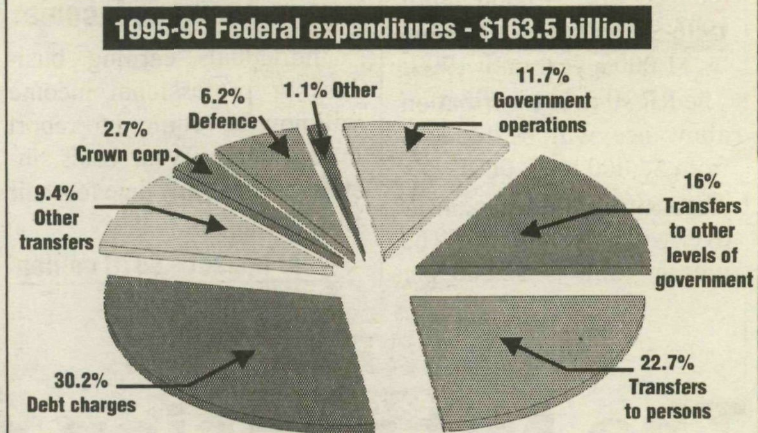
- The National Capital Commission will operate on a more commercial basis.
- Natural Resources Canada will move toward Special Operating Agency status.
- The Department of Fisheries and Oceans (DFO) will seek to enter into partnerships with the fishing industry and others in the management of capacity, licensing and compliance. It will also rid itself of recreation harbours and rationalize commercial fishing harbours.
- The Canadian Space Agency will focus increasingly on private sector partnerships and joint ventures for earth observation, space science and technology.
- The Department of National Defence will look at enhancing its private sector partnerships.

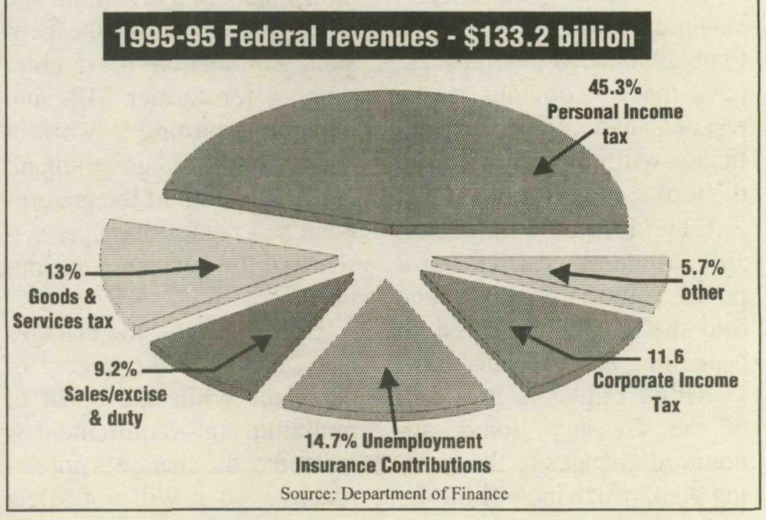




Businesses that have cost taxpayers hundreds of millions of dollars are finally being privatized.

Breakdown of the federal budget





Source: Department of Finance

Budget overview

The Cuts

- A 14% cut in the federal civil service, or about 45,000 jobs. Some of the jobs will be transferred to the private sector including 6,000 positions in Transport Canada.
- The sale of the remaining shares of Petro-Canada (approximately 70%), action to sell CN, and the privatization of Transport Canada's Air Navigation System (ANS) which includes the air traffic control system.
- Business subsidies will decline from $3.8 billion in 1994-95 to $1.5 billion in 1997-98.
- Elimination of transportation subsidies including the Western Grain Transportation Act, the Atlantic Region Freight Assistance Act and the Maritime Freight Rates Act.
- Reform to the system of federal transfers to the provinces and territories for social programs.

The Taxes

- A 1.5 cent a litre tax on gasoline.
- Increase in the rates of the large corporations tax and the corporate surtax.
- A "temporary" capital tax increase on banks and other large deposit taking institutions.
- A 6 2/3% additional tax on the investment income of Canadian controlled private corporations.
- An increase in the Air Transportation Tax to $55 per person on a flight originating in Canada, and $27.50 for all others.
- Elimination of the Public Utilities Income Tax Transfer Act PUITTA, effectively a tax on private utilities - but not on Crowns.

The Bottom Line

- The budget masks the true picture as government spending still went up. 1995-96 total budget (program spending and interest payments) will be $163.5 billion, up from $162.9 billion in 1994-95 and $158 billion in 1993-94.
- Public debt charges continue to escalate - up from $38 billion in 1993-94 to $49.5 billion in 1995-96.
- By 1996-97, the federal debt will have grown to over $600 billion, and Martin has given no indication he intends to balance the budget.
- Cuts were not uniform with some areas taking the brunt of the budget cuts - mostly business and related industries. Special interest groups and Crown corporation cuts remained minimal.

the FEDERAL BUDGET

The unfairness of the budget cuts

Despite Martin's claim - No balance in the budget

Paul Martin likes to say his latest budget took a "balanced-approach" to deficit reduction.

Unfortunately, the final numbers show it was anything but balanced.

The fact is that certain areas bore the brunt of the majority of cuts. The Natural Resource Sector which includes Agriculture and Fisheries and Oceans saw a 31.2% cut overall, or $1.5 billion over the next two years. Agriculture was further hit with a 50.8% reduction in transportation which includes the elimination of the Western Canadian Grain Stabilization Act and the Crow benefit.

Prairie grain farmers will be especially hard hit by the elimination of the Crow benefit. Many groups had advocated a method of payment change to go directly to farmers instead of the railways. However, no one expected its outright cancellation. The $560 million a year Ottawa will save is estimated to cost a producer with a 1,000 acre grain farm approximately $16,000 per year. Ottawa is offering a one time payout that will amount to about $20,000 per 1,000 acre farm.

Business was hit with a 38% overall reduction in Industry, Science and Technology and Regional Agencies. The elimination of the Public Utilities Income Tax Transfer Act (PUITTA) means Ottawa's savings will largely come at the expense of electricity consumers in Alberta, Nova Scotia, and P.E.I., the only provinces with investor-owned electricity companies.

PUITTA was established to create parity between the government-owned utilities that didn't pay income taxes and the privately-owned ones that did, by returning to consumers 95% of the income tax paid by the private businesses. Its elimination will be reflected in higher rates at the privately-run companies.

At the other end of the scale, the Department of Indian Affairs and Northern Development actually saw its spending increase from $3.76 billion to $4.2 billion over three years - a 12% increase. In fact, it was the only department that didn't have a decrease in spending.

International spending such as Foreign Affairs and International Trade only saw a 17.3% reduction and International Assistance a 20.5% reduction. Foreign aid will only get $540 million trimmed over three years from a current budget of $2.6 billion.

Some are wondering why certain groups in Canada must bear a bigger share of the spending cuts than projects in other countries. As a result of Canada's fiscal condition we are simply borrowing money we don't have to give it away overseas. In fact, the *Wall-Street Journal* has described Canada as an honourary member of the third-world.

Social Programs only saw an overall reduction of 7.6%. This is minimal especially considering the federal government has moved to a system of block funding for transferring payments for social programs to the provinces. Creating the Canadian Social Transfer will mean a reduction in the amount of money Ottawa sends, but more control for the provinces over how the money is spent. As well, administration costs will be substantially lower.

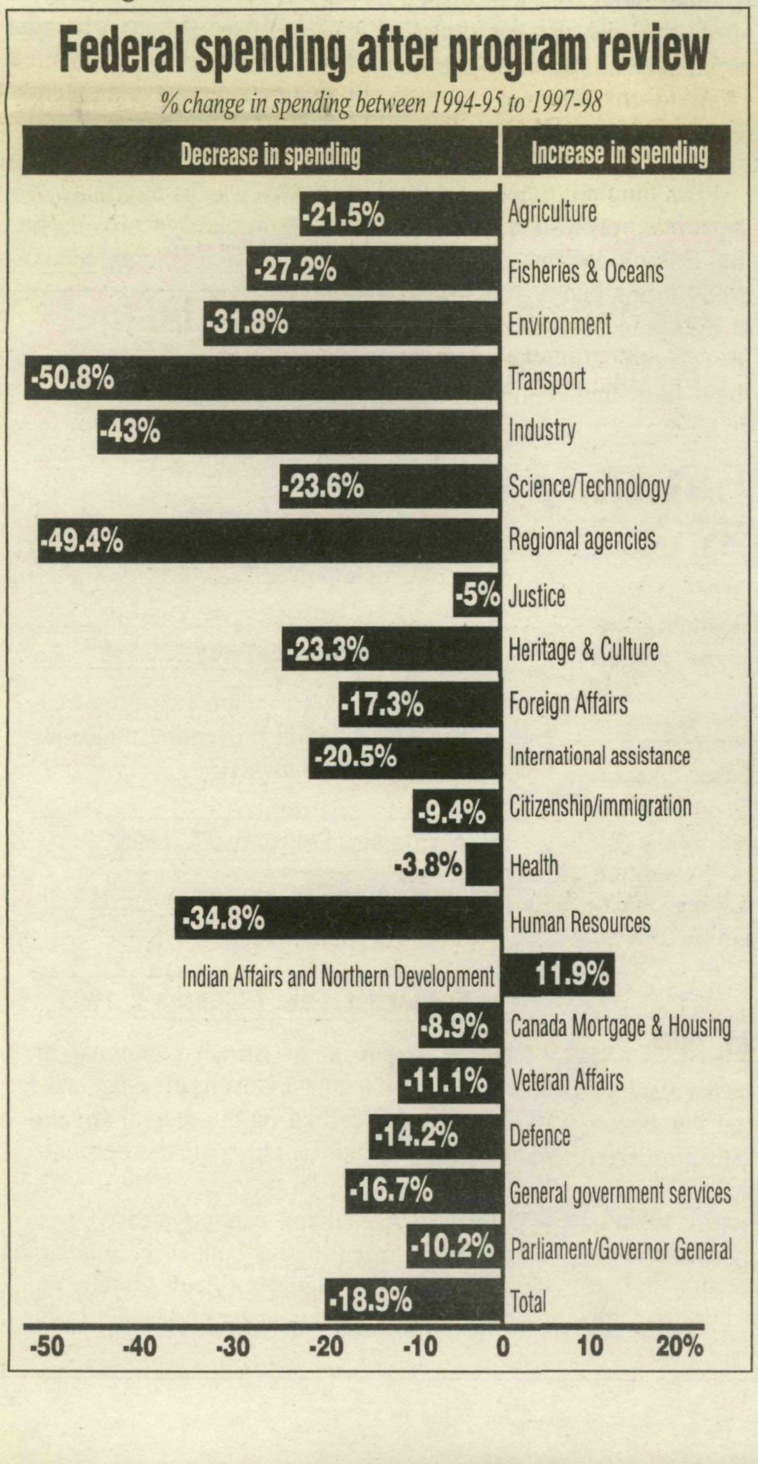
Even Heritage and Cultural Programs, with a 23.3% budget cut could have taken a bigger hit. Canada Heritage is the federal government's primary slush fund for the arts. It's become infamous for its bilingual and multi-cultural grants.

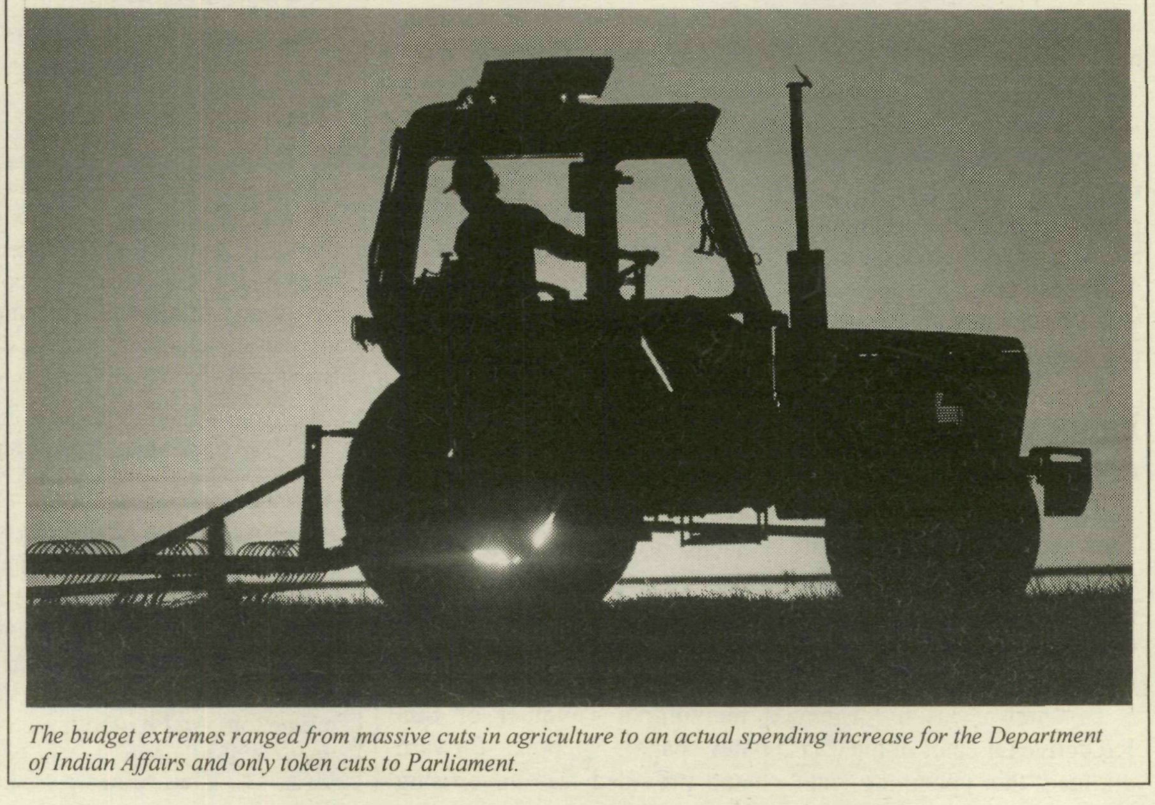
Remember our three-striped $1.8-million painting called "Voice of Fire" purchased by the National Art Gallery? The money came from Canada Heritage and its predecessor departments. The necessity of such funding in our current economic climate must be re-considered. For instance, CBC will only see $44 million cut out of the approximately $1 billion it receives annually from taxpayers. Telefilm Canada will see $5.7 million cut from grants but will receive $8.6 million in new government revenues, and the National Film Board will only see a 5% cut.

But, why did Natural Resources lose half their budget ($1.26 billion to $638 million), while Indian Affairs increased from $3.76 billion to $4.2 billion and Parliamentary operations and the Governor General take only a token cut ($309 million to $277 million)?

Many taxpayers are prepared to do their part to see government spending brought under control. However, certain groups shouldn't be selected to carry the brunt of it. On average, the federal government cut spending by 18.9%, but, in the process gutted certain departments, while others in comparison were virtually untouched.

For some reason, the Liberal government forgot that this debt belongs to everyone.





The budget extremes ranged from massive cuts in agriculture to an actual spending increase for the Department of Indian Affairs and only token cuts to Parliament.

CTF launches national tax protest

Waking the sleeping Canadian giant

Taxpayers, fed up with seeing 46% of their cash income going just to pay taxes, were out to stop another government tax grab. Photo: Toronto Sun.

From Victoria, B.C., to Moncton, New Brunswick, irate taxpayers lined up at the microphones voicing their unwillingness to accept tax increases in the federal budget.

It was a shocking change from the apathy of Canadians who have traditionally rolled over when hit with tax increases. A Detroit Tiger's Fan, commenting on Bill Clinton's proposal to charge Canadians entering the U.S. said, "In Canada, they might get away with it because we're so apathetic. But down there, they'd be having Boston Tea Parties."

Is it possible the sleeping Canadian giant has awoken?

The first shove came last fall, when the Federal House of Commons Finance Committee recommended nearly $1 billion in new taxes, including a "temporary personal income surtax".

Dennis Mills, a backbench Liberal MP from Ontario, predicted Canadians would complain for a few days, and then they'd roll over.

Elected just a year and a half earlier, the federal government was already out-of-touch with average Canadians.

Seemingly unconcerned about the heavy tax burden already on Canadians, the federal government was ready to push ahead with more taxes. In response, the Canadian Taxpayers Federation (CTF) organized an unprecedented national protest to try to stop the federal government's move.

Did the tax protest succeed? Well, it didn't completely stop the tax increases, but they were much lower than those proposed by the Finance Committee. But even more important, the protest acted as a catalyst to wake up Canadians pushed to the limit.

National news conference

The protest was officially launched on January 24 with simultaneous news conferences in Ottawa, Vancouver, Calgary, Saskatoon and Winnipeg.

In Ottawa, Jason Kenney, Executive Director of the CTF, outlined the upcoming campaign called "No more Taxes, not on people, jobs or businesses". It would feature a series of protest rallies stretching from British Columbia to New Brunswick, an advertising campaign and a national petition drive calling on the federal government to stop any proposed tax increases. It also called for the introduction of a Taxpayer Protection Act that would legally force the government to balance its budget and prevent it from raising taxes.

The ad campaign

Four days after the news conference, the Federation unveiled its advertising campaign with ads in the *Financial Post* and the *Globe and Mail*.

The ads focused on Prime Minister Jean Chretien's pre-election promise that he wouldn't raise taxes. "I say there is no tax increase in this plan. I said in an interview the other day, if we were to be in a war—perhaps."

The Federation's full page ad in the *Financial Post* was part its special 12-page section called "Debt & Taxes," which explained in detail why Canada needs a Taxpayer Protection Act. Portions of this section are reprinted in this issue of *The Taxpayer*.

As the campaign gained momentum, a number of Sun newspapers stepped forward and provided free advertising to promote the rallies in their areas.

The tax rallies

The rallies started off with a bang. National news coverage pictured standing room only in Kelowna, B.C., when the CTF launched its first rally on Feb. 1st. Organizers were hoping for between 300 to 400 people, but nearly 1,000 pushed their way into the room in the Coast Capri Hotel. The next night, so many tax protesters turned up at the rally in Kamloops, organizers had to turn people away to avoid breaking fire regulations.

Five nights later, 1,800 angry tax protesters stormed the Edmonton Inn and hundreds more had to be turned away at the door. At the rally in Toronto, 2000 people said they had had enough with taxes. The largest crowd was in Pickering, Ontario, where 3,500 showed up to lend their voices to the tax protest.

In almost every instance, organizers were faced with the problem of trying to find space for crowds three to four times higher than expected.

In some instances new facilities were needed to accommodate the growing crowds. People called wondering why rallies weren't being held in their locality. Already stretched to the limit, organizers realized more rallies would need to be added to the list.

At the rallies, people were given an opportunity to vent their feelings about the potential tax grab contrasting sharply with the meetings held by the House of Commons' Finance Committee which provided a forum for special interest groups to push for more spending. At the Saskatoon rally, a well-known pro-tax activist told the crowd he welcomed more taxes and was vehemently booed. TV coverage of the event picked up the outrage directed his way by angry taxpayers. Politicians from parties trying to defend increased taxation received the same response.

In total, the CTF and its pro-

Continued on page 7

What they said...

The Wall Street Journal, March 1, 1995

"Voters flooded government officials with faxes, phone calls and letters demanding 'no new taxes'. The grassroots campaign... had an impact."

The Los Angeles Times

"An incipient tax revolt is sweeping across Canada... Anti-tax rallies sponsored by the Alberta-based Canadian Taxpayers Federation have drawn thousands of placard-waving, chanting participants from British Columbia to New Brunswick."

The Vancouver Sun, Feb. 28, 1995

"The dearth of new taxes may be the result of an unprecedented grassroots protest that began in the West (led by the CTF) and steamrollered East. Some 17,000 ordinary people turned up in February at anti-tax rallies from Victoria to Halifax. they swear and shed tears in gyms and town halls. They organized, not in reaction but in pre-action. And by the time they'd drawn their lines in the snowy landscape of a Canadian winter. Parliament hill was encircled, feeling the full force of people power."

CBC Newsworld, February 12, 1995

"It appears that the Canadian Taxpayers Federation has succeeded in preventing major tax increases in this year's budget."

Macleans, February 27, 1995

"Riding a wave, the Taxpayers Federation, has pushed itself onto the national stage."

The Economist, Feb. 18/March 4, 1995

"Some taxpayers in British Columbia released a spate of letters protesting at being 'taxed to the max' and calling on the federal government to chop spending. The spate has become a flood."

"Western Canadians can be pleased with themselves. Presenting his budget on February 27th, the finance minister, Paul Martin, announced that there would be no change in income tax."

vincial affiliates held 19 rallies including four in B.C., three in Alberta, one each in Saskatchewan, New Brunswick, Nova Scotia and Manitoba, and nine in Ontario.

The petition campaign

The CTF's national petition drive started with a Tax Alert section in *The Taxpayer.* CTF supporters quickly rose to the challenge by mailing and sending in tens of thousands of names. There were calls for more petitions so people could go to local coffee shops and malls to collect names.

The ads in the *Globe and Mail* and *Financial Post* generated thousands of responses.

In British Columbia, the B.C. Taxpayers Association declared Saturday, February 11, B.C. Tax Petition Day. Volunteers were stationed in 14 locations around the province, and over 12,000 names were collected in one day.

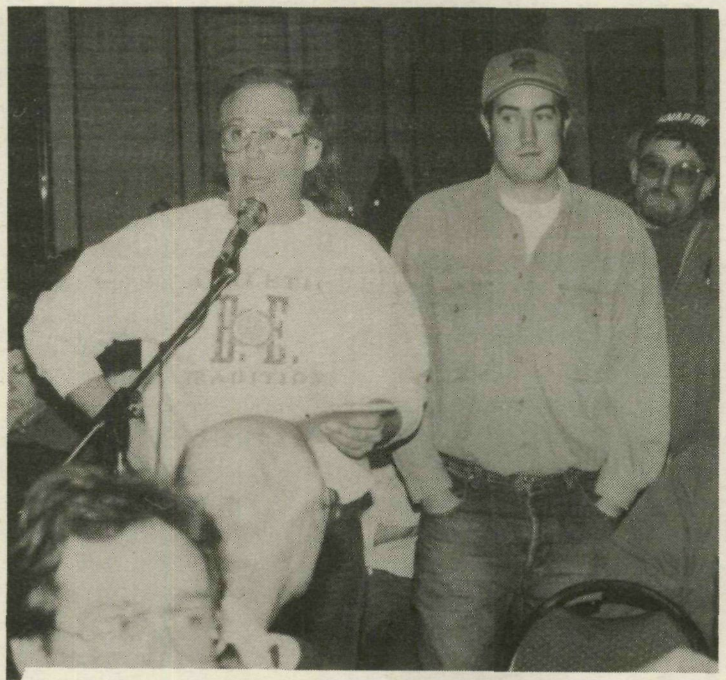
In total, the CTF delivered over 230,000 names to the Prime Minister and Finance Minister.

The *Financial Post*, several Sun newspapers, and a number of other publications initiated their own petition drives. Radio stations began distributing petitions, and in Ontario a number promoted "Fax Fridays" where they encouraged listeners to fax their messages to politicians. As well, hundreds of independent tax activists from across the country sprang into action to add names to the growing public outcry against the proposed tax increases.

An anomaly in Canadian society, the rallies attracted a tremendous amount of media coverage. Nightly they were featured on one if not all the major TV news networks.

Jason Kenney, the Executive Director of the CTF and other Federation staff fielded hundreds of media requests for interviews and information.

Many were surprised by such a response from Canadians. Terry Downey, a political scientist at the University of Waterloo, said in an interview in the *Victoria Times Colonist,* "Historically, people have always grumbled about taxes, but I don't think I've ever seen such a concerted effort by Canadians to forestall a rise in taxes."



With the fastest growing tax burden in the industrialized world, Canadians want taxes cut back, not increased.

David Perry, a senior research associate with the Canadian Tax Foundation, said this tax protest has been brewing for years. He added that taxpayers are in no mood for any further tax increases, having had their tax burden rise from 30% of Canada's GDP in 1980 to 38% in 1992. This is nearly a 30% increase.

Jason Kenney, who was featured on dozens of phone-in shows on local radio stations, often gave out the phone number for Paul Martin's office. On one show, an individual called claiming to be an official from Paul Martin's office, and asked the CTF to quit giving out Martin's phone and fax number, because their office was being overwhelmed with messages. It was obvious almost from the start, that taxpayers would not "roll over" as predicted by the Liberals.

Grassroots tax protests

Only the finance ministry will know the final count, but a massive grassroots anti-tax movement spread out across Canada, and their message of "No More Taxes" was spelled out in hundreds of thousands of petitions and letters addressed to the federal government.

For the first time, Canadians were demanding more of a say in their government beyond casting a ballot once every four years, and called for taxpayers' interests to be brought to the attention of Ottawa politicians.

John Patrick

On January 13, 1995, retired businessman John Patrick of Kelowna, B.C., decided it was time to do something, and made up a kit.

John Patrick was only one of thousands of individuals who made a difference. Photo: B.C. Report.

The kit included an instruction sheet motivating taxpayers to get involved in spreading the anti-tax message. "If you wish to change the course of your Canada, and you inspire 2 people every day for 24 days to follow what you have done, and each of those persons follows your program, in 24 days you and I (just the two of us) will have influenced 16,777,216 people." Also included in the kit were sample letters to be sent to the Finance Minister and Prime Minister.

The uptake on this initiative was phenomenal. Patrick says, for example, a woman in Salmon Arm estimates she and her husband put 5,000 letters in the mail themselves. A man from Salmo collected 3,800 letters.

Patrick sees it as a successful example of people working together. "My pockets aren't as deep as they (governments) think they are ... and the tens of thousands of people who joined along the way were feeling the same. Obviously working shoulder to shoulder meant doing it a little better".

Jack Morris

Another British Columbian activist is Jack Morris of Port Coquitlam.

He was growing increasingly concerned about the declining Canadian dollar, the impact this has had on the economy, and the obvious reasons for it - our huge debt and high levels of taxation.

After reading an article by Terry O'Neil in the B.C. Report on the slumping dollar, Morris contacted him about reprinting it in his salmon fishing industry newsletter. O'Neil informed him about the efforts of John Patrick and the two were able to join forces.

What kind of impact has Morris' involvement made? It's difficult to quantify.

For example, a woman in Victoria sent out 800 copies, a senior citizen 120, Quick Copy in Nanaimo 4,500, and another group in Nanaimo 2,800. Morris says he received calls from Montreal, cities across Ontario and Alberta.

"They (the government) listen to all these self-interest groups who want the money. It's about bloody time they listened to the people who are paying the money."

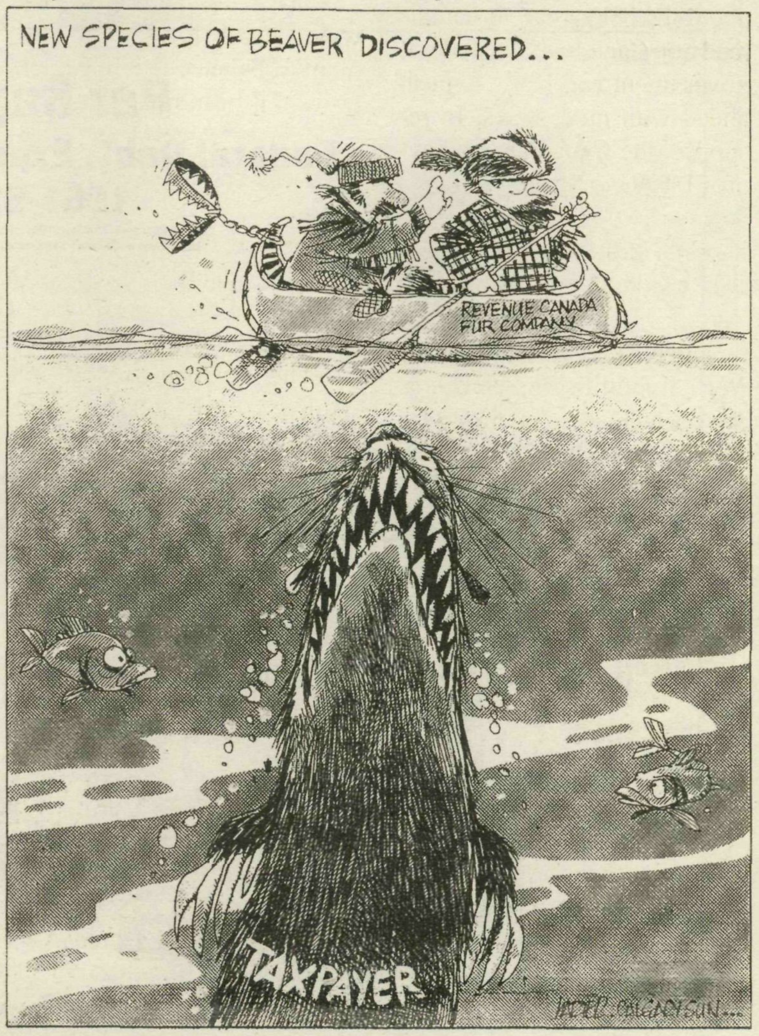
Dan Galler

In Ottawa, a young entrepreneur, Dan Galler's foray into the world of business caused him to join the tax protest.

Galler, 22, had just graduated from Carleton University and set up a small business in the arts retail and import industry. He quickly discovered that a significantly large proportion of his earnings were going toward taxes.

"I'm just starting the most productive years of my life, and I don't plan on spending the next 30 years giving half of it away in taxes."

Galler volunteered to organize a "No more taxes" rally in Ottawa. The 327 people who did show made a point, and Galler said he hopes the government understands people have reached a level of "zero tolerance", whether taxes hit the middle-class, the rich or corporations.



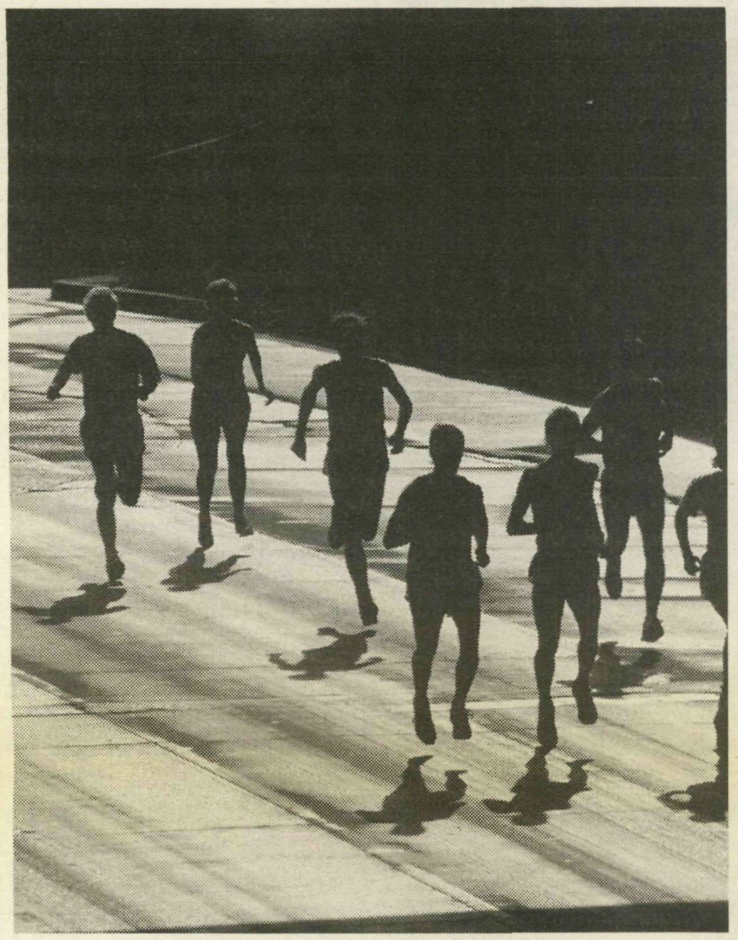
Will higher taxes reduce the deficit?

by James Forrest

According to the financial wizards in Ottawa, the answer to Canada's economic woes lies in a combination of more taxes and moderate spending cuts.

Finance Minister Paul Martin's "balanced-approach" to fighting the deficit ignores Canada's fiscal history.

Massive tax increases, without corresponding spending reductions, have been the strategy for 20 years. But they have failed miserably to correct the growing deficit trend and mounting debt. The dramatic increase in revenues over the last 25 years clearly shows deficits are caused by overspending, not inadequate revenues.



People, jobs, and capital will flee high tax regimes.

Historical outlook:

Despite the fact federal government revenues have grown substantially, expenditures - and debt - have ballooned at an even faster pace.

Federal budgetary revenues have increased 760% since 1970, the last year the federal budget had a surplus. At the same time, total government revenues jumped from 35.7% of GDP in 1970 to 44.1% of GDP in 1993. Meanwhile, total government expenditures ballooned by 1,053%.

The federal government's budget balance has worsened by 16,173% from the 1969-70 surplus of $247 million to the 1994 budget deficit estimated at $39.7 billion. The net federal debt has increased by 2,857% since 1969-70.

Obviously there are serious consequences related to such fiscal mismanagement. For instance, the percentage change in average family income growth has generally deteriorated since the mid-70s.

Further, an increasing amount of revenues are diverted away from program spending to escalating compounding interest payments. In 1969-70, interest payments on government debt totalled $1.7 billion, or 11.9% of spending. In 1994-95, interest of $44.3 billion will amount to 27.1% of spending.

International outlook:

Our international competitiveness is being put at risk because of our financial problems and the rate of increase and the size of our tax burden. Currently, Canada's personal tax burden is the fastest growing among OECD nations, and the highest among the world's industrialized countries.

Canada's trade surplus is among the highest in the G-7. Yet, financial outflows - such as interest payments on foreign debt - are overshadowing this.

Our level of foreign debt is by far the highest of any industrialized country. Total private and public sector Canadian foreign debt amounts to $313 billion, or 44% of GDP; Italy is next at 12% of GDP. This puts international investors in the driver's seat in setting the Canadian dollar's value and Canadian interest rates.

Investment and skilled jobs are already locating - or relocating - outside Canada. For example, a 1994 B.C. Chamber of Commerce survey revealed that more than 20% of the respondents had either already moved part of their operation or were considering it because of tax and regulatory policies.

Canadians are also directing more of their investments out of country. During the first 11 months of 1994, Canadians put 62% more into global mutual funds than they did in 1993, according to the Investment Funds Institute of Canada.

Higher taxes will only cause Canada to lose ground as international investors and skilled, productive individuals go where their resources will earn the best return.

The economic impact of high taxes and debt:

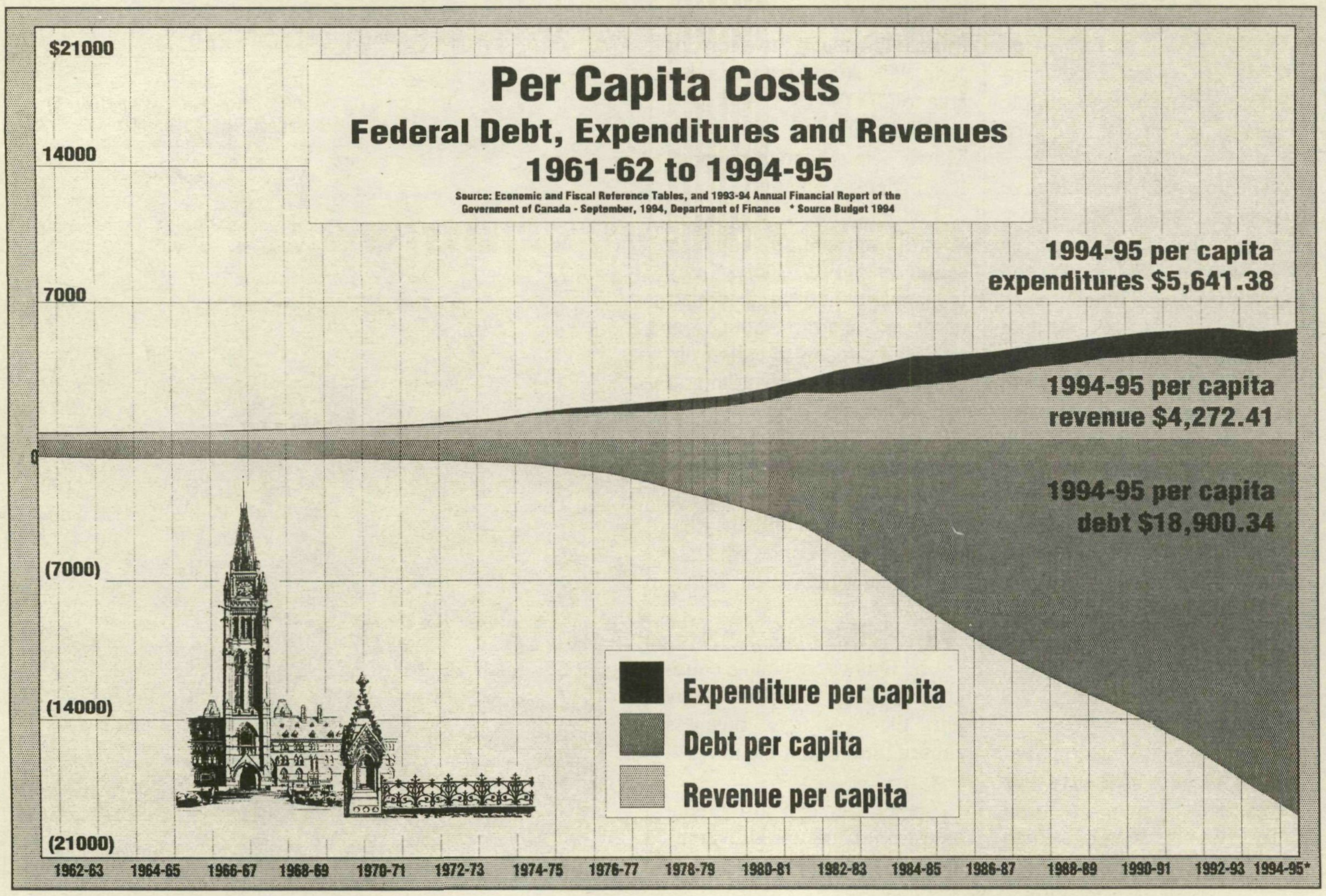
While our public debt level, rooted in overspending, causes the dollar's value to plummet and credit ratings to be downgraded, Canada's crushing tax burden is already suffocating the country's economy.

Tax hikes - no matter how big, or how they are disguised, are not the solution.

Canada's tax level is at the point of diminishing returns. Adding to the tax burden could easily cause tax revenues to fall, as savings and investment decline, jobs are lost, more capital leaves the country, and the tax base weakens and shrinks.

Dr. Bev Dahlby (University of Alberta) in his 1994 paper, "The Distortionary Effect of Rising Taxes," illustrated the cost to the economy of extracting $1 more in tax revenues was greater than $1. Dahlby calculated that each additional federal personal income tax dollar collected takes $1.38 out of the Canadian economy because of the disincentives to work, save and invest. He also noted that a surtax increase was the most economically damaging.

Several recent studies on Canada's underground economy have found that the "black market" has expanded substantially since the introduction of the GST in January of 1991. The imposition of "Canada's most hated tax" provoked many Canadians to opt out of the legal economy, thus reducing the tax base and, consequently, government revenues.



A Peat Marwick Thorne poll conducted in 1994 showed 56% of respondents thought the tax system was unfair, and 49% would pay cash to avoid the GST and provincial sales taxes.

Public-sector borrowing, required to finance government overspending, crowds out the ability of the private sector to raise investment capital, which in turn diminishes its capacity to expand and create jobs. The extra demand for limited domestic savings pressures interest rates to rise, impeding consumer and business spending, adding to government debt servicing costs, and stifling economic growth.

Moreover, all Canadian borrowers are forced to seek foreign capital since total domestic savings are insufficient to service total Canadian borrowing. This places the value of the Canadian dollar and level of Canadian interest rates at the whim of foreigners. In the month of September, 1993, foreign investors sold $1.9 billion more Canadian securities than they purchased, the biggest net selloff since the Charlottetown Accord.

No More Taxes:

Not on people:

Most Canadian's after-tax incomes decreased between 1980 and 1992, according to a 1994 Statistics Canada study. Only the lowest quintile maintained income. Between 1971 and 1992, after-tax incomes increased by only 18%, while average income taxes jumped 54%.

The Fraser Institute calculates the tax bill of the average Canadian family has increased 1,167% since 1961, and that taxes now add up to a bigger proportion of their expenditures than shelter, food and clothing combined.

Not on jobs:

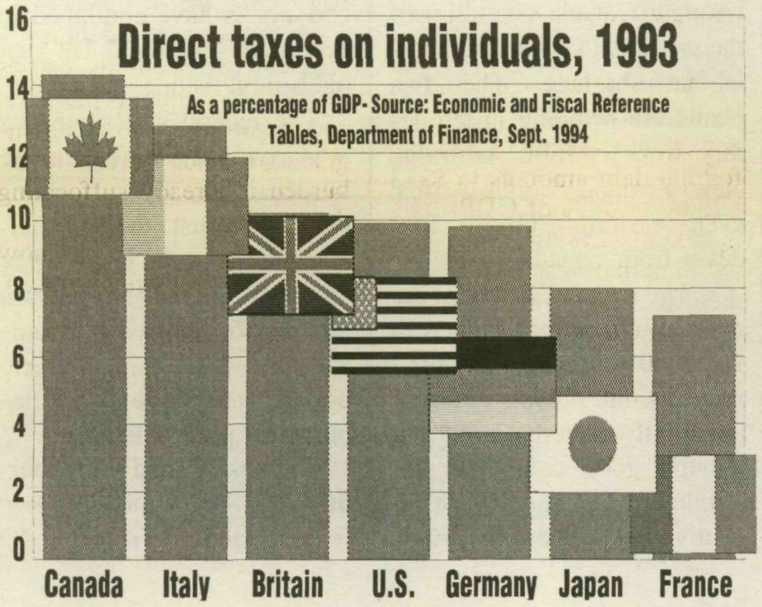
Small business, the creators of most Canadian jobs, regard taxes as the largest impediment to their growth. In a 1994 survey of small/mid-sized companies across Canada conducted by Arthur Anderson, over 70% stated that taxes were their most important issue. A separate 1994 CFIB survey revealed that 82% of its members feel concern about the total tax burden and their companies' ability to continue; and CFIB members rank taxes, followed by "debt and deficit reduction," as their two biggest concerns.

Not on businesses:

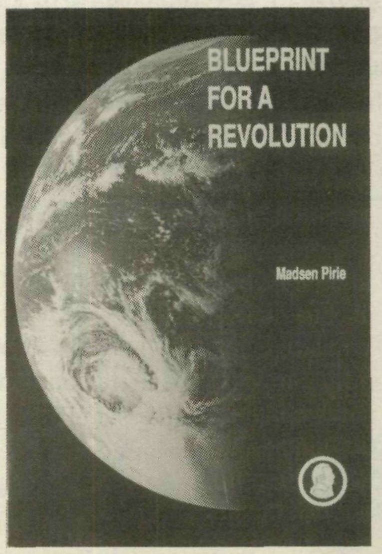
In Canada, 70% of business taxes are paid regardless of income. In 1992, the total taxes paid by businesses amounted to approximately 70% of profits before direct taxes. While corporate profits decreased by 10% between 1983 and 1991, federal revenues from corporations increased by 60%.

Conclusion:

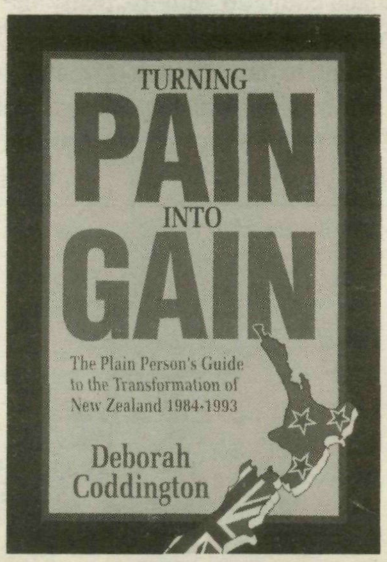
Canada's fiscal crisis cannot be averted by actions on the revenue side. Spending reductions are the only solution. Limits, such as a Taxpayers Protection Act, must be put in place to safeguard Canadians from continued overspending and to ensure government lives within taxpayers' means.



Get the facts



Blueprint for a Revolution $9.95
By Madsen Pirie
The changes Britain underwent (privatization, competition into education and health, and bringing the public sector under the authority of a Citizen's Charter) serve as an instruction manual for countries struggling to develop a market driven economy.



Turning Pain into Gain - $19.95
By Deborah Coddington
The plain person's guide to New Zealand's transformation by an award-winning journalist takes an in-depth look at how the country went from the brink of insolvency to economic recovery in just 10 years.

Book order form:

___ Tax Facts 9	$19.95	____
___ Turning Pain into Gain	$20.00	____
___ Direct Democracy	$19.95	____
___ Unfinished Business	$19.95	____
___ Blueprint for a Revolution	$9.95	____
Subtotal		____
Add GST (7%)		____
Shipping and handling first book ($3.00)		$3.00
Each additional book ($.50)		____
Total Order		____

Payment enclosed:
☐Cheque ☐Visa ☐MasterCard
Visa/MC # ____________ Expiry date: ______
Name: ____________
Address: ____________
City: ____________
Province: ____________ P.C.: ______
Send to the Canadian Taxpayers Federation, #105-438 Victoria Ave. East, Regina, S4N 0N7

A tax increase Canadians would endorse

If Jean Chretien is so intent on increasing taxes, may we suggest a tax increase the Canadian Taxpayers Federation (CTF) could support.

He would even have the fine example of Italian politicians to follow. Last December, the Italian government decided to scrap politician's tax-free allowance. Under Italian law, 18% of the income of Italian politicians was exempt from paying personal income taxes.

This is similar to Canadian politicians who, under the Income Tax Act, can have up to 33% of their income tax-exempt. Last year, a study by the Canadian Taxpayers Federation revealed that this tax exemption resulted in over $8 million in lost tax revenues from just federal and provincial politicians. When you consider this exemption is also allowable for municipal politicians, school trustees, municipal utility boards, etc., the loss of tax revenue is much higher.

Currently a Canadian federal MP is eligible for a salary of $64,400 a year plus a tax-free allowance of $21,300 for a total salary of $85,700. However, when the tax-free portion is calculated in, their salary is actually closer to $106,662.

If Jean Chretien decides to close this tax loophole, I'm sure he would have the support of the vast majority of Canadians. Of course to keep such an increase revenue neutral, Chretien would have to reduce taxes elsewhere.

Italian politicians plan to eliminate their tax-free allowance in order to restore respect for politicians. Will Canadian politicians follow suit?

A Canadian tragedy...

An extensive comparison of the fishing trade in Canada and Iceland by W-5's Eric Malling doesn't reflect well on our east coast's primary industry.

In the W-5 study, Iceland's leading fishing economist, Ragnar Arnason, said the best thing Canada could do with its marine resources would be to rent them out to an efficient fishing nation. Unfortunately, these are not the musings of a disgruntled competitor, but are well based in fact.

The contrast between the two countries is astounding.

In Iceland, a prosperous fishing trade supports the country. In Canada, the taxpayers support the money-losing industry.

Both countries catch virtually the same amount of fish. But, Canada has approximately 65,000 fishermen versus Iceland's 6,000. In fact, Canada has more "fish bureaucrats" than Iceland has fishermen. Ottawa spends more on Newfoundland fisheries than the Iceland government spends on its entire budget. It costs Canada $1.2 billion in fisheries administration to deliver $425 million in income.

The Canadian government may be the real problem with our fisheries.

Why the difference? Perhaps it is because our Canadian governments have made our fishing industry dependent on handouts. In Iceland, that option does not exist and as a result people are finding innovative solutions to the crisis.

Our fishermen have been provided with unemployment insurance to tide them over, so they sit and wait for the cod to return. Their industrious counterparts in Iceland, who are facing the same disastrous reduction in cod fishing stocks, are buying the Canadian boats that sit, are catching fish in international waters, expanding into other fish markets such as red fish, shrimp and haddock, and selling the fish to other countries - including Canada.

Ragnar Arnason says it would have been possible for Canada's fishermen to do the same, but the government has removed the incentive. Why look for work when you are paid to stay at home?

Malling also showed how fishing villages in both countries have responded to the havoc wreaked upon their traditional livelihoods.

In Atlantic Canada, the federal government has put up $2 billion to support 39,000 people while they wait for the cod to come back. As well, there is $300 million available to buy some of them out and to help them re-establish themselves.

In contrast, in the tiny Icelandic fishing village of Bolungarvik, when faced with the same situation, the people responded differently to the crisis. There were no government handouts available, so they had to look to themselves for answers. They began by fishing shrimp instead of cod. Some local merchants and outside investors bought the local freezing plant and tripled shrimp production.

Perhaps the most telling evidence of something seriously wrong in Canada's handling of the crisis is that Iceland has a labour shortage. The fish plants are bringing in temporary workers from Australia, New Zealand, South Africa, even eastern Europe. But, never from Canada.

The reason Canadians are overlooked is that even with 20 to 40 per cent unemployment in our fishing industry, apparently there are not enough good candidates for employment. There is no incentive because our fishermen can collect Unemployment Insurance for eight or nine months of the year and stay at home courtesy of the country's taxpayers. What reason would they have for looking for work, as the Icelandic people were forced to?

The comparisons shown on W-5 lead to an inevitable conclusion, best voiced by Ragnar Arnason, who said, "Perhaps the real tragedy in Newfoundland is not this temporary, hopefully, decline in the cod stock, but the fact the population seems so incapable of adjusting to a new situation. Develop new fisheries, find new markets, and maybe develop new industry altogether."

Reports indicate our east coast fishermen may have to do just that. It appears that the cod stocks have continued to decline despite the 2 1/2 year old ban on fishing.

The federal government is now saying it cannot continue to support the industry indefinitely, and that young fishermen must face the grim reality that the cod fishery will not recover for at least a decade and may never again be able to provide the large scale-employment it once did.

Perhaps Canadian fishermen can get some guidance from Iceland.

The greening of the greens

Golf courses across Canada are getting into the swing of things when it comes to getting your tax dollars.

Each year the federal government publishes its Public Accounts which provide a list of the businesses that received over $100,000 in financial assistance from the government. There are also thousands of businesses which received less than this amount and simply weren't included on this elite listing which incidentally contained a number of golf courses.

In 1992-93, the Atlantic Canada Opportunity Agency gave $387,865 to the Upper Humber Golf Club Inc. of Deer Lake, Newfoundland. In that same year, the Department of Industry, Science and Technology gave Indian Lakes Golf Ltd., of Winterburn, Alberta, $467,160 under its Aboriginal Economic Program.

But perhaps the eagle birdie for 1992-93, was the $321,500 in financial assistance handed out by the Federal Office of Regional Development in Quebec to the Baie-Comeau Golf Club of Baie-Comeau, Quebec. If the name rings a bell, it's because Baie-Comeau was former Prime Minister Brian Mulroney's old riding, and yes, he was Prime Minister when the money was given out. The money was used to develop tourism.

ACTION

Write......

Prime Minister
Jean Chretien
House of Commons
Ottawa, Ontario
K1A 0A6

The funding for golf courses in 1993-94 continued on rain or shine. The Federal Office of Regional Development provided funding (over $100,000) to three golf courses. This included $106,832 for the Royal Laurentien Golf Course of St-Faustin, Quebec; $119,528 to the Saint-Prime Golf Club of Saint-Prime, Quebec for expansion and the Hotel du golf Nominigue Inc. of Lac Nominigue, Quebec, received $144,748 for modernization.

Alberta Budget '95 - Black Ink!

The Klein Government was elected in 1993 on a platform of eliminating the $3.4 billion provincial deficit by cutting spending, not raising taxes. Two years into this mandate an annual surplus of $110 million has been delivered. It's the first time Alberta's budget has seen black ink in a decade.

Don't forget, though, that Premier Klein inherited a bloated, overbearing government; starting a slimfast spending diet was certainly achievable. And, he's also been dished up a generous helping of significantly increased revenues. But Albertans have learned we can't bank on volatile resource revenues. The job's still far from finished.

Program spending has toppled by $1.9 billion since 1992-93, with a further $700 million in reductions slated over the next two years. Government expenditures, over 21% of Gross Provincial Product in 1992-93 (GPP is a measure of the economy), are now at 17% (1994-95), and are projected to fall to 15% of GPP by 1996-97. That means more job-creating, private sector spending and investment.

Provincial revenues, on the other hand, have climbed by $1.5 billion since 1992-93. Most of this leap has come from healthy corporate income taxes, bountiful resource revenues, a jackpot in lotteries and surprising results from "other funds and agencies," especially the Workers' Compensation Board. Since the increase has been generated in large part by economic (or GPP) growth, revenues as a percentage of GPP are about the same as in 1992-93, at 17%.

1995-96
Dinning's not done

So far, so good. But Treasurer Jim Dinning isn't resting on his 1994-95 financial results. His 1995-96 budget has the Alberta government back dancing in the red, to the tune of a $506 million deficit. And, that's with $478 million more in expenditure cuts!

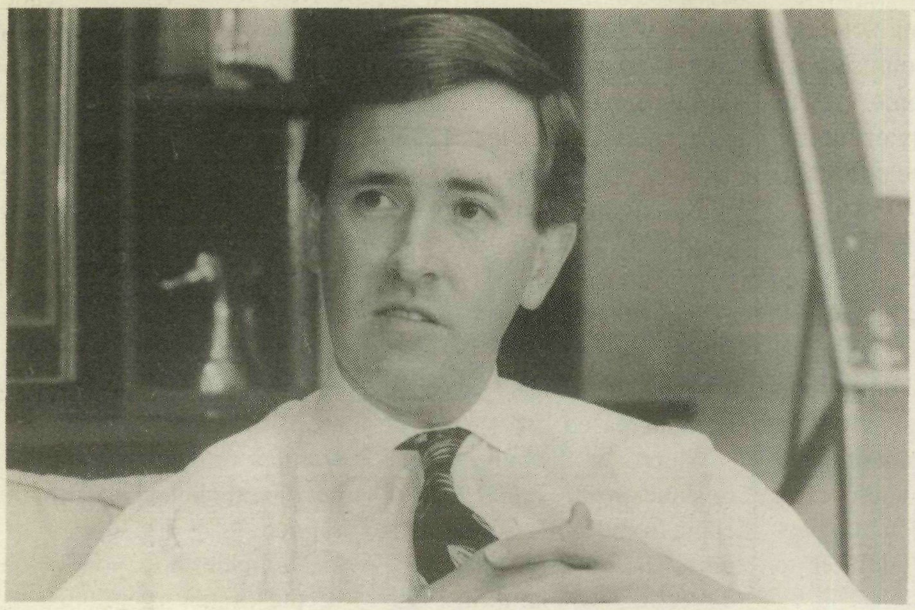
Dinning's reasoning is as follows: He doesn't expect to receive the same level of revenues from "other funds and agencies." In fact, legislation this year may move WCB "outside the government's reporting entity," meaning its performance would have less impact on government finances. He also projects much lower resource revenues, since record sales of drilling rights in 1994-95 of $935 million are unlikely to be repeated, and oil and gas prices are unreliable. Finally, he builds into his estimates additional debt servicing costs. The effect is a $1 billion deficit. Thus the need to spend $478 million less.

Is this necessary? Critics claim it's just an excuse to cut government spending further, beyond what is needed. But most Albertans realize, and agree, that optimistic, free-spending fiscal mismanagement is what caused the problems in the first place.

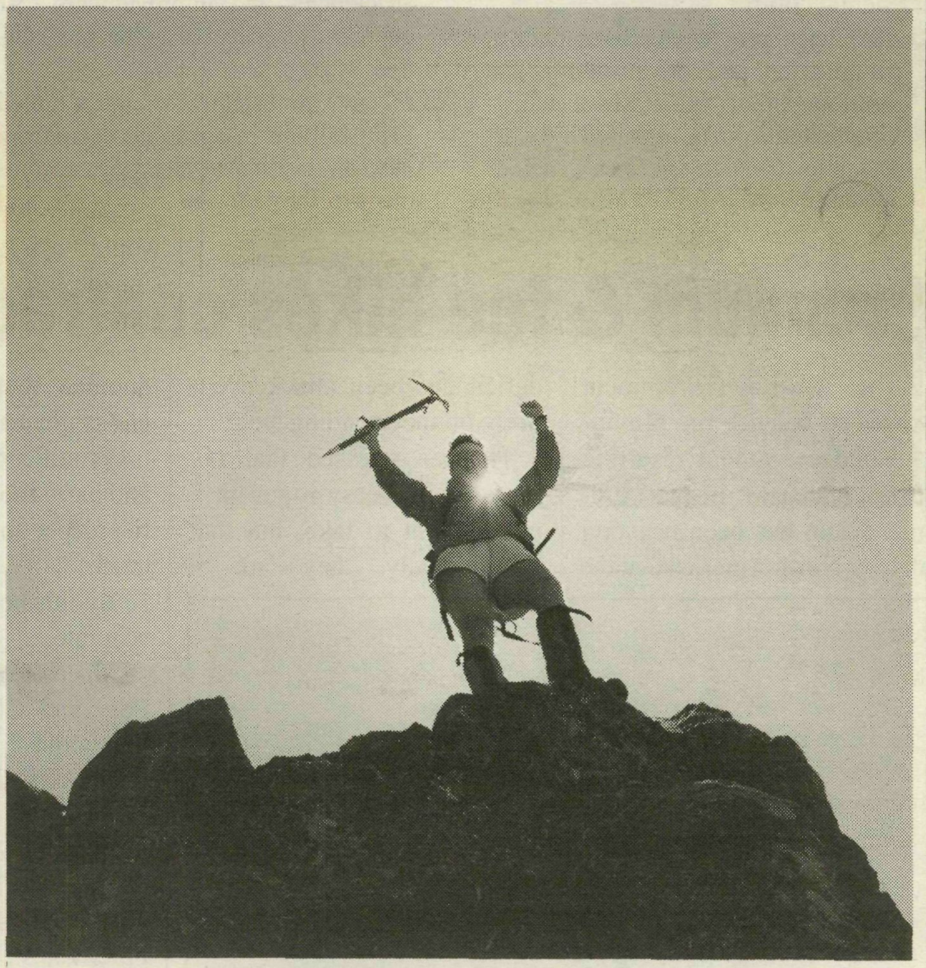
And, contrary to the howls of protest from special interest groups, and sneers from other provinces, two years of Klein's "slash and burn" policies have not wreaked havoc on Albertans. Alberta's unemployment rate is second lowest in Canada, behind Saskatchewan, which has had far less population growth. Over the last five years Alberta's per capita investment has been the highest in the country, fuelling the nation's fastest growing economy. And, it's no secret the tax burden in Alberta is by far the least menacing.

There is light at the end of the tunnel for Albertans. By the end of 1995-96, after just three years, 90% of the targeted $2.6 billion in program spending cuts will have been accomplished. The Klein Government has certainly produced good results on paper.

But the fundamental restructuring of government has just begun. And, this is Premier Klein's biggest test. Reforming government is essential to prevent future fiscal mismanagement and indeed to protect our competitiveness and standard of living. Hopefully, rosy financial results will not derail the intention to redefine government's role and operation. And, hopefully, intentions will be converted to actions.



Dinning: Doesn't expect resource revenues to stay at the same rate.



Alberta's budget is a step in the right direction but there are bigger mountains to climb.

Consolidated fiscal summary

in millions of $	1992-93	1993-94	1994-95	1995-96
Revenues	$12,458	$13,702	$13,950	$13,352
Other funds & agencies/decrease in capital assets	$23	$500	$576	$142
Program expenditures	$14,463	$13,960	$12,583	$12,105
Debt servicing	$1,433	$1,626	$1,833	$1,895
Total spending	$15,896	$15,586	$14,416	$14,000
Surplus/(Deficit)	($3,415)	($1,384)	$110	($506)

Alberta Taxpayers Association

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Executive Director
Jason Kenney

Government restructuring: mixed reviews

The disgraceful state of provincial finances in 1992-93 prompted fiscal actions.

But huge deficits and massive debt also signalled the need for radical reform of government. It was too big, too inefficient and out of control. Albertans wanted more open, more effective and less intrusive government.

The Klein Government has balanced the books, but some necessary changes have not been fully implemented.

There is still a need for a shift from the attitude that government works above its citizens to the concept that government works for, and in partnership, with its citizens. While the department of social services has reflected this idea of individual responsibility, and Alberta parents will have an opportunity to have greater input on school councils (although it is unclear how effective or comprehensive their role will be), there are still remnants of governmental control.

- Insufficient progress has been made in deregulation and privatization. The development of "individual responsibility" should not be impaired by overregulation which defines choices needlessly. And government should limit its role only to those areas deemed necessary by taxpayers. Albertans are still on the hook for too many business ventures (for example, Alberta Opportunity Company, Swan Hills Waste Treatment Plant, Millar Western Pulp Mill).
- Too large a proportion of the expenditure reductions have been directed at the service delivery levels, rather than at administrations so far. Examples are hospitals and the education department.
- The government has failed to deliver the tools necessary to empower taxpayers and motivate greater involvement. The new Municipal Government Act strips referendum powers from citizens and strengthens and shelters the position of municipal bureaucrats.
- Funding for education will only be reduced by 5.6 % between 1992-93 and 1997-98. This may reflect Albertans' priorities, but it will not force efficiencies and improvements that our children deserve to be competitive.
- In fact, almost 50% of the targeted $160 million in spending cuts (from 1992-93 to 1997-98) has been accomplished through the 5% wage and benefit rollback and the reduction in the number of school boards.
- Charter schools have been hamstrung, stifling their ability to innovate and produce competing, alternative education techniques, protecting the established system.
- In health care restructuring, actions have been orchestrated by the "top"; input from "line workers," nurses, doctors and other health care professionals, has been unnecessarily limited. While these groups have vested interests, and initially opposed changes, their insight and knowledge are essential to redesigning the system. Encouraging ideas from those with experience at the service delivery level would promote cooperation in altering the expensive system.
- The method of staffing the Regional Health Authorities, still undecided, is also a concern. Albertans should be permitted to elect some of the members rather than being left out of the appointment process.
- As well, no clear blue print for the planned health care structure has been presented. Uncertain Albertans deserve to know the plan.

This is a pivotal year for reinventing government in Alberta. The future of the Alberta Heritage Savings and Trust Fund, water legislation and questions about environmental protection (Special Places) loom. It is important that Albertans take on more responsibility and demand the right to be more involved.

Albertans are still on the hook for too many business ventures such as the Swan Hills Waste Treatment Plant.

Premium & fee hikes contradict "No tax increase" claim

The Alberta Government vowed to balance the provincial budget without resorting to tax increases. In fact, Premier Klein has been boasting all over North America that the deficit has been attacked entirely on the spending side.

He has stressed that tax hikes are the easy route for a government to take, but that economically they are a doomed long term solution. He's right on that count: higher taxes stifle economic growth and harm the ability of society to prosper and to help those in need.

But his boast is not entirely accurate.

Since 1992-93, "Premiums, Fees and Charges" revenues have gone from $786 million to an estimated $1,006 million in 1995-96, a jump of $220 million, or 28%. These extra revenues come from taxpayers' pockets, in addition to other taxes paid.

User fees are certainly a fairer form of taxation. They cover the cost of a service received by someone who has a choice not to purchase it. And other taxpayers are not forced through general taxes to subsidize a service they may never use.

But if these services were previously either fully or partially funded out of general taxes, then general taxes should be reduced by the amount that user fees have been increased.

Moreover, the bulk of these revenues, 60% in 1995-96, come from Health Care Premiums. The government will be collecting 46% more in 1995-96 than it did in 1992-93. The Premium will have risen from $27 for an individual per month, $54 for a family, to $34 and $68 respectively, by July 1, 1995.

Health Care Premiums are not user fees. All Albertans above a certain income level have no choice in paying them. Indeed, Alberta and B.C. are the only provinces to levy premiums; other provinces fund health care entirely from general tax revenues. While they are dedicated to a specific government program, payment is not directly linked to use of the service.

No matter how you look at it, the higher premiums and fees amount to higher taxes. Premier Klein should live up to his claims, and give Albertans back the extra revenues raised.

Though taxes have not gone up, health care premiums have increased dramatically.

Premium, fee and license increases

(Millions of $)	1992-93	1993-94	1994-95	1995-96	1996-97
Total premiums, fees, licenses	786[1]	839[2]	942[2]	1,006[2]	1,063[3]
Increase		+53	+103	+64	+57
Health care premiums	412[4]	442[5]	544[5]	602[5]	645[5]
Increase		+30	+102	+58	+43

1. Budget '94 (Operating revenue) 2. Budget '95 (Revenue) 3. Government projected targets (Balanced Budget Plan - Operating revenues) 4. 1993-94 Government Estimates, Health Care Insurance Fund 5. Alberta Health Business Plan (Feb., 1995)

Taxpayer protection legislation & debt retirement bills introduced

This spring the government has introduced Bills 1 (Alberta Taxpayer Protection Act) and 6 (Balanced Budget and Debt Retirement Act). A step in the right direction, both could have gone much further.

Bill 1 prevents the Legislature from imposing a sales tax on Albertans unless taxpayers have approved of the tax by voting for it in a referendum. The Alberta Taxpayers Association has long called for full citizen empowerment; but the requirement for a referendum should apply to tax increases of any kind.

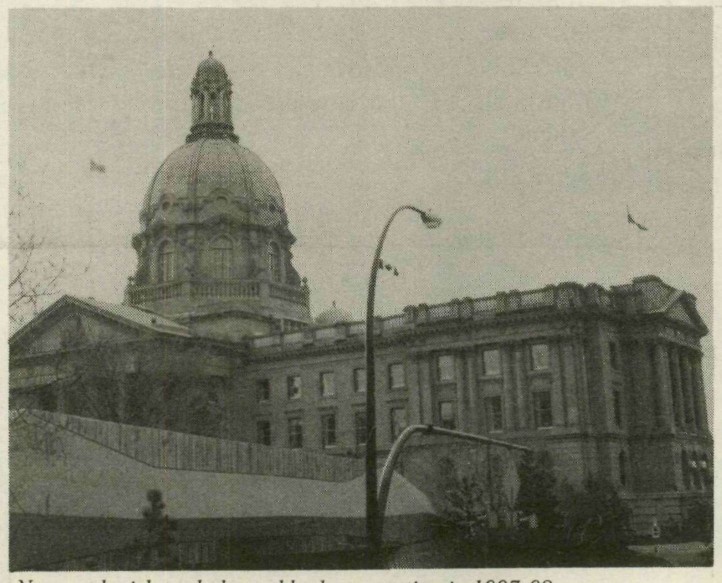
In Manitoba's recent budget the Filmon government proposed taxpayer protection that would cover personal and corporate incomes taxes, the provincial sales tax and Manitoba's payroll tax. These four taxes amount to 70% of Manitoba's own-source revenue. Alberta's Bill 1 falls short in comparison.

Bill 6, which will replace the Deficit Elimination Act, legislates balanced budgets commencing in 1997-98, and contemplates paying down Alberta's debt by the year 2022. It sets out a schedule, with five year targets, and requires a minimum annual payment of $100 million, with an average annual payment of $350 million. It also stipulates that any surpluses must be used to pay down the debt, and budgets must include a resource revenue and corporate income tax cushion.

But there's a catch, a big one. The "debt" referred to is Alberta's "net debt," defined as gross debt minus financial assets minus unfunded pension liabilities (which are subject to a separate, 65 year repayment plan). The "debt" is not Alberta's estimated 1997 $34 billion total liabilities, but is only the estimated 1997 $8.6 billion net debt.

Treasurer Jim Dinning's rationale for only eliminating net debt is that by reducing outstanding liabilities to the level of assets, the income from these assets will more than cover the debt servicing costs required.

But why not decrease these debt servicing costs more by attacking the $23 billion debt we pay interest on? Why should future generations have to spend over $1 billion on interest costs instead of on programs? Why should they have to pay an extra $1 billion in taxes?


New act legislates balanced budgets starting in 1997-98.

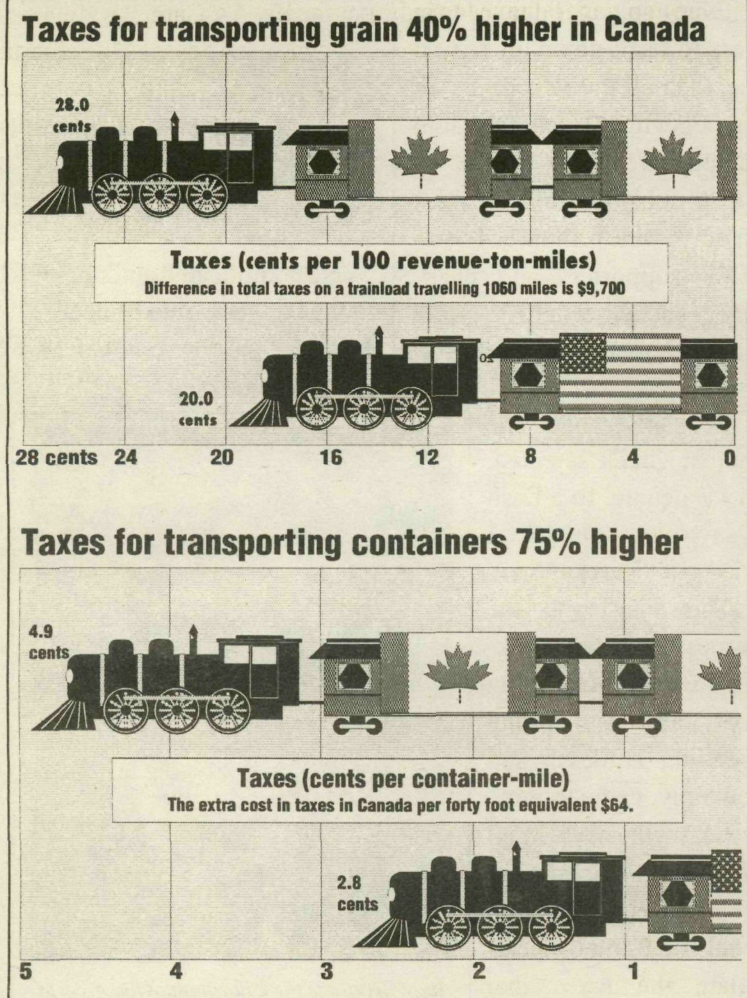
It may be that Mr. Dinning is being careful, not wanting to tie future governments to an onerous repayment scheme, and has every intention of paying off more than just net debt.

But, it's our debt, created in a time when Albertans are enjoying revenues generated by non-renewable resources which may not be as significant in 2022. We should ensure that the income from the financial assets inherited by future Albertans truly benefits them, and is not needed to pay the costs of our overspending.

Hidden taxes give American farmers the advantage

When an American farmer pulls up to the grain elevator he immediately has a significant financial advantage over his Canadian counterpart.

As published in the February 1993 "Issues for Canada's Future", a 1991 CN, CP Rail study revealed that the taxes paid by farmers to transport grain by rail were 40% higher in Canada than the U.S. Calculations showed that on a trainload of grain being transported from North Dakota to Portland, Oregon, taxes were $5,045 less than those paid to transport grain to Vancouver from Saskatchewan, even though the U.S. journey is about 190 miles longer.



Source: *Issues for Canada's Future Inc., & study by CN & CP*

The CN/CP study compared payroll taxes, property taxes and fuel taxes applied to the respective rail companies and found that the taxes payable by the Canadians were $225 million higher than those levied on U.S. railways. Perhaps we could call this "The American's hidden subsidy - less expensive government."

The report undertaken by The Round Table on "Transportation through the Greater Vancouver Gateway" concluded that overall Canadian rail companies pay 54% more in taxes than their American counterparts. The study revealed that the taxes on transporting containers were 75% higher in Canada, and the costs for transporting coal were 31% higher.

These taxes are simply another cost of doing business in Canada and are passed on to the consumer.


The inefficiencies of Canadian governments are hurting our economy.

New car ads that give you the price and then tell you that freight, PDI (Pre Dealer Inspection) and taxes are extra are an example of how transportation taxes simply add to the price of goods we consume.

Unfortunately, these taxes not only hurt consumers, but also affect Canadian businesses which must compete with their American counterparts for international trade. For example, in order to sell our grain, the price must be competitive with the Americans - our major rival. This difference in taxes becomes even more significant in light of the recent elimination of the Crow Rate benefit. Farmers will now have to contend with increased costs of transporting grain. We can't charge more simply because it costs more to transport our grain, so the producer must absorb the costs or pass it on to the domestic or Canadian consumer where possible.

In other instances, we simply lose business because of our inability to compete due to these extra costs. In the end, if prices are reduced or contracts lost because of higher taxes, it means fewer jobs for Canadians.

Whichever way you look at it, taxes hurt businesses, cost consumers and kill jobs.

Alberta gets it again from Ottawa

Ottawa's picking Albertans' pockets again.

The 1995 Federal budget introduced on February 27th, is a timid first half-step toward fiscal responsibility.

It does break with federal tradition, exhibited in the past by governments of any political stripe, of continued "tax and spend" madness. There are actually program spending cuts in the budget - even if they don't go far enough.

But the budget continues one other Ottawa tradition we could do well without: milking the Alberta "cash cow." Here are some budget measures aimed predominantly at Albertans' wallets:

- The grain transportation subsidies have been eliminated without providing farmers with new marketing options, while dairy subsidies which most benefit Quebec and Ontario have been reduced only 30%;
- The private utility customers' rebate of federal income taxes, 70% of which comes back to Alberta, was eliminated, while government-owned utilities in other provinces still pay no income tax at all;
- A new transfer payment scheme which begins in 1996-97 will continue to send billions of dollars from Albertans to other Canadians. After Federal taxes are collected from all the provinces, the federal government divies them up to be paid out to the provinces. The transfers the Alberta government receives from Ottawa for health, post-secondary education and welfare will fall by 8.4% between 1994-95 and 1996-97, more than any other province;
- Alberta's dominance in oil and gas production means it will be most affected by any decrease in demand for gas because of the 1.5 cents/litre gas tax hike imposed in the budget. As demand for any product falls, the price it can be sold at, or the amount that can be sold, falls as a result. This harms Alberta's oil and gas companies, employers of a large number of Albertans.

Even the gasoline tax increase hits Alberta harder than any other province. If gasoline consumption falls off, it means fewer jobs.

Percentage changes of transfer payments

To the provinces and territories from 1994-95 to 1996-97

Newfoundland	+1.9%
Prince Edward Island	+2.2%
Nova Scotia	+0.9%
New Brunswick	+1.4%
Quebec	-3.1%
Ontario	-8.3%
Manitoba	-0.3%
Saskatchewan	+2.8%
Alberta	-8.4%
British Columbia	-7.9%
Northwest Territories	-8.1%
Yukon	-5.9%
Total	**-4.4%**

Ontario Premier asks for deeper cuts

By Andy Crooks

Ontario Premier Bob Rae has asked for greater fairness and equity in the federal budget. But he has omitted some obvious ideas.

There is unfairness in the budget, but it can be fixed.

Although Alberta has only 9% of the Canadian population, we fork over 70% of the federal income taxes paid by utilities. Why? Because Alberta's utilities are privately owned. TransAlta pays income tax, government-owned Ontario Hydro does not. This means Albertans are unfairly taxed.

Alberta utility rates are set by provincial regulators, based on costs of production and other factors, including income taxes.

The rates charged by Ontario Hydro are also regulated. But the similarities between Alberta and Ontario end there. Since Ontario Hydro doesn't pay any income tax, the costs upon which its rates are set are lower than those of Alberta utilities. This means that Ontario energy consumers have an advantage: their utility cost base is less than ours, so their utility charges are less than ours.

Bob Rae must have trouble sleeping at night, knowing that this trans-provincial inequity is allowed to exist.

Until last week, he could sleep easier knowing that 85% of the federal income taxes being paid by privately owned utilities, and therefore by their customers, were being rebated. The rebate levelled the playing field.

Of course Alberta received 70% of this rebate, since few other provinces have privately owned electric utilities. The rebate was originally sent straight to consumers, but was later directed to the Alberta Government to be transferred to Albertans. It appears on utility bills as "Alberta Rebate of Federal Income Tax."

Directly or indirectly, the utility income tax disadvantage was returned to Albertans.

Paul Martin has cancelled the rebate. The playing field is now slanted - primarily against Albertans.

Fairness now demands that Ontario Hydro pay income tax. Utility customers should be placed on the same footing across the nation when it comes to tax costs.

If all the provincially-owned utilities paid income tax to the federal government, Paul Martin would have an additional $1.4 billion to work with. Martin would have to borrow less, saving $140 million in debt servicing costs annually.

But I am on the horns of a desperate dilemma. How can we ask for increased taxes?

The federal Liberals finally seem to recognize that Canada has a fiscal problem and that government spending reductions must be a major part of the solution. But to classify the termination of the utility tax rebate as a "tax saving," an expenditure reduction, is ungenerous at best.

Even so, if Paul Martin were to back down on this issue, then all the fishermen, all the pogeymen (including auto companies which count on UIC to subsidize their workers on down time), all three NACSOW supporters and every other special interest group would demand the same roll back.

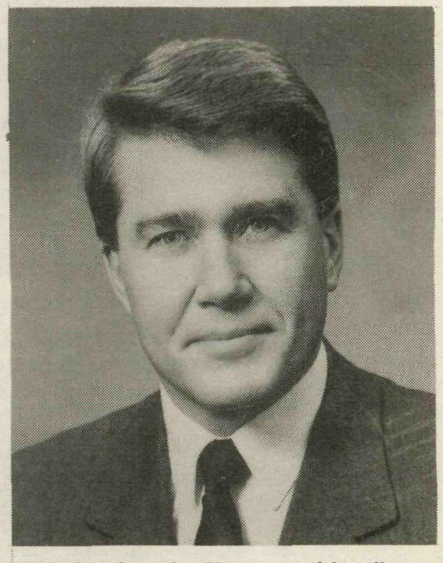
Suddenly, like the ancient Greek scientist, an idea came. In a flash I saw the solution. I cried out "Eureka!"

The answer to the fairness Bob Rae is asking for, without raising taxes and by cutting spending painlessly and equitably, came to me.

Leave the revocation of the utility income tax rebate in place. Alberta would do its bit. But calculate the taxes that would be paid by the government run utilities in each province, and deduct that amount from federal transfer payments.

Our thanks to Bob Rae for supporting principles of fairness and equity. Mr. Martin, this is the idea of the week. Let's see it put in place quickly.

No complicated amendment to the budget would be needed. Just take the extra money and pay off some debt.



Andy Crooks is the Chairman of the Alberta Taxpayers Association.

Taxpayer-funded subsidies to special interest groups

Recently the federal government handed over $4.2 million to dozens of special interest groups. The purpose was to help them submit presentations to the House of Commons committee examining Canada's social programs. The list on this page includes the name of the group and how much they received.

National

Assembly of First Nations $50,000
Canadian AIDS Society $30,000
Cdn Assoc. for Adult Education $29,500
Cdn Assoc. for Community Living $25,000
Cdn Assoc. of Independent Living Ctres .. $50,000
Cdn Assoc. of Toy Libraries and Parent Resource Centres $42,340
Cdn Assoc. of Volunteer Bureaux & Ctres. $24,500
Canadian Child Care Federation $44,000
Cdn Coalition for the Rights of Children .. $12,950
Cdn Coalition for Comm. Based Training . $38,000
Cdn Congress for Learning Opportunities for Women $49,800
Canadian Council for Reform Judaism ... $42,000
Canadian Ethnocultural Council $50,000
Cdn Home\School\Parent -Teacher Fed .. $45,000
Cdn Mental Health Assoc. & National Network for Mental Health $44,650
Canadian Paraplegic Association $48,325
Canadian School Boards Association $44,025
Canadian Unitarian Council $6,300
Centre for Community Enterprise $39,400
Child Poverty Action Group $43,900
Child Welfare League of Canada and Canadian Foster Family Association $38,700
Citizens for Public Justice & CJL Found... $45,000
Coalition of Nat Voluntary Organizations.. $40,000
Congress of Aboriginal Peoples $50,000
Council of Cdns with Disabilities $50,000
Ecumenical Coalition for Social and Economic Justice $40,000
Federation Canadienne pour l'alphabetisation en francais $34,316
Generation 2000 & The Student Commission $46,852
Institut Canadien d'Education des Adultes $15,000
Inuit Tapirisat of Canada $50,000
L'Association Canadienne pour la promotion des services de garde l'enfance $43,990
Le Rescau national d'action education femmes $40,896
Metis National Council $50,000
Movement for Canadian Literacy $50,000
National Aboriginal Network on Disability . $35,000
National Anti-Poverty Organization $50,000
National Assoc. of Friendship Centres.... $50,000
National Assoc. of Women & the Law & The National Organization of Immigrant & Visible Minority Women $40,070
National Council of Women of Canada ... $25,000
National Metis Women of Canada $25,000
National Pensioners & Senior Citizens Federation & Congress of Union Retirees $19,300
Nat. Union of Public & Gen. Employees .. $42,500
National Youth in Care Network $45,000
Native Women's Association of Canada .. $50,000
Neil Squire Foundation $40,000
One Voice - The Cdn Seniors Network ... $37,500
Rural Dignity of Canada $43,000
SpeciaLink $22,600
United Way/Centraids Canada $40,000

British Columbia

Aboriginal Women's Council of B.C. $30,000
Affiliation of Multicultural Societies and Service Agencies of British Columbia $30,000
Social Planning & Research Council of BC $30,000
UNN Local 136/B.C. Native Housing Corp.. $5,000
Vancouver & Dist. Labour Council $13,450
Victoria Status of Women Action Group... $15,000

Alberta

AB Committee of Citizens with Disabilities. $30,000
Alberta Native Friendship Centre Assoc... $25,000
Children and Families Initiative $13,820
Edmonton City Centre Church Corp...... $14,855
Family Centre of Northern Alberta $10,000
Income Security Action Coalition $10,000
Metis Nation of Alberta $20,000
Native Council of Canada (Alberta) $15,000
Training & Education Network for Women in AB TENWA & Alberta Status of Women $29,650

Northwest Territories

NWT Federation of Labour $35,470
Yellowknife Women's Society $30,000

Yukon

Social Development Com. Coalition $15,000
Victoria Faulkner Women's Centre $24,052

Saskatchewan

Disabled Women's Network of Sask $28,000
Downtown Chaplaincy $12,000
People Empowering People & NAPO-Sask $17,400
Sask. Action Committee, Status of Women $30,000
Sask. Child Hunger Coalition $30,000
Sask Coalition Against Racism $15,000
Sask.Voice of the Handicapped $22,300

Manitoba

Aboriginal Council of Winnipeg $14,640
Cdn Association of the Non-Employed.... $24,000
MB.Action Committee on the Status of Women $30,000
MB League of the Physically Handicapped $20,000
Metis Women of Manitoba $25,000

Ontario

Advocates for Community Based Training and Education for Women $14,750
Conseil de planification des services communautaires de Prescott - Russell $10,000
East End Literacy $13,500
Family Serv. Assoc. of Met. Toronto $15,000
Lakehead Social Planning Council $10,000
LIFE*SPIN $11,400
Niagara Mental Health $9,500
Northumberland Coalition Against Poverty $10,000
Ontario Coalition Against Poverty $12,750
Ontario Coalition for Better Child Care.... $26,100
ON Coalition of Senior Citizen's Organ.... $26,500
Ontario Metis & Aboriginal Assoc. $50,000
ON Network of Employment Skills Training Projects $30,000
ON Network of Independent Living Ctres.. $25,000
Ontario Social Safety Net/Work $30,000
Persons United for Self-Help, Northwest .. $15,000
Peterborough Social Planning Council.... $13,229
Social Planning Council of Met.Toronto ... $20,000
Social Planning Council of Niagara Falls .. $14,137
Social Planning Council of Ottawa, Carleton $15,000
Social Planning Council of Peel $12,450
Tenants & Homeless Information & Action Committee $9,400
Toronto Aboriginal Soc. Services Assoc . .$15,000
Toronto Assoc. of Neighbourhood Serv. .. $15,000
Waterloo Region Community Coalition ... $12,495
Windsor Women's Incentive Centre $15,000

Quebec

Association Multi-Ethnique Pour l-Integration des Personnes Handicappees $15,000
Assoc. pour la sante publique du Quebec. $18,000
Comite d'adaption de la main d'oeuvre pour personnes handicappees CAMO $25,000
Comite des Organismes Sociaux Laval.... $9,950
Conseil Quebecois de Developpement Social $29,904
COPHAN et Table des ROP $30,000
Corporation de developpement communautaire de Brome - Missisquoi $14,600
Corproation de developpement communautaire des Bois-Francs $9,800
Corporation de developpement communautaire-Rond Point $10,200
Entraide Communautaire La Presqu'Ile .. $13,772
Front Commun des Personnes Assistees Sociales du Quebec $29,625
L.A.S.T.U.C.E. Du Saguenay $14,066
La Ligue des Droits it Libertes $24,600
La Centre D'organization et de formation des travailleuses et travailleurs en enterprise $9,800
Mouvement Action - Chomage Montreal .. $15,000
Mouvement Action - Chomage Trois Rivieres $13,850
Quebec Native Women $30,000
Regroupement des Corporations de developpement economiques communautaires $13,250
Relais Femmes $50,000
Solidarite Populaire Quebec $29,000
Table des Groupes Populaires $20,394
Table regionale d'organismes volontaires d'education populaire de la monteregie $15,000

New Brunswick

Ad Hoc Anglophone Committee $10,000
Coalition Chaleur pour la Sauvegarde des Programmes Sociaux $10,000
Comite ad hoc sur la reforme de la securite sociale $10,000
Grater Moncton Coalition for Economic and Social Justice $14,600
NB Association for Community Living..... $5,000
NB Coalition of Disability Organizations .. $25,500

P.E.I.

Aboriginal Women's Assoc.of PEI Inc. $5,000
Lennox Island Band Council $5,000
Native Council of P.E.I. $5,000
PEI Coalition of Social Security Reform .. $30,000
PEI Women's Reference Group $25,000
PEI Federation of Labour $20,000
Prince Edward Island Literacy Alliance ... $15,000
Societe Saint - Thomas d'Aquin $25,000
West Prince Alert Group $12,000

Newfoundland

Atlantic Child Care Coalition $30,000
Community Services Council of Nfld/Lab.. $30,000
Equity in Reform Coalition $30,000
Federation of Newfoundland Indians..... $30,000
Gander Status of Women Council and Nfld and Labrador Women's Economic Network..... $30,000
Iris Kirby House & Women in Trades and Technology $12,282
Nfld & Labrador Federation of Labour.... $30,000

Nova Scotia

Cape Breton District Labour Council $13,080
Halifax Coalition on Social Security Reform $14,500
Native Council of Nova Scotia $30,000
New Dawn Enterprises Ltd $14,000
Nova Scotia Disability Coalition $30,000
Nova Scotia Federation of Labour $23,900
NS Provincial Literacy Coalition $15,000
Second Story Women's Centre $3,700
Students' Union, Univ. College of Cape Breton $14,600

Canadian Taxpayers Federation announces

New appointment to the Board

The Canadian Taxpayers Federation is pleased to announce the appointment of Linda Leatherdale, of Toronto, Ontario, to its Board of Directors.

She joins Bob Matheson, C.M., Q.C., of Edmonton, Alberta, who serves as Chairman of the Board; Norm Baker of Regina, Saskatchewan; Andy Crooks of Calgary, Alberta; Tom Jacobsen of Three Hills, Alberta; Connie Osterman of Carstairs, Alberta; Mel Smith, Q.C. of Victoria, B.C.; and Norm Wallace of Saskatoon, Saskatchewan.

Paul Pagnuelo has announced his retirement from the CTF Board. However, he will continue to serve as the Executive Director of the Ontario Taxpayers Federation.

Linda Leatherdale

An award-winning journalist and columnist, Linda Leatherdale is Financial Editor of the *Toronto Sun*. A believer in advocacy journalism, she has led highly-charged campaigns against the GST, the high cost of credit cards and bank service charges, and government fiscal policy. She writes regularly on taxation and business issues, and has appeared frequently on television and radio. She was formerly Business Editor of the *Edmonton Sun*, and the inaugural Business Editor of the *Ottawa Sun*. Ms. Leatherdale also served as Editor of the *Ontario Business Magazine*, and one of Key Publishers' magazines. She has worked on general assignment and as business reporter for several daily newspapers. She has authored articles for the *Financial Post Magazine* and the *Globe and Mail*.

Forcing government to say no

By Jason Kenney

The failure of politicians to say "no" to every spending demand placed upon them has put Canada on course for a fiscal train wreck. Buried in high taxes and unsustainable debt levels, Canadian governments will be forced to dramatically alter their spending priorities or face fiscal derailment.

Yet, despite public demands and political rhetoric supporting spending and deficit reduction, Canada's fiscal position continues to deteriorate. Consider the following statements made by the ghosts of Finance Ministers past: "I come now to specific measures. None is more important than the control of public expenditures." These were the words of Finance Minister John Turner when he rose to give his budget address in 1975. At the time our deficit was $6.2 billion and our debt was at $33.9 billion. Three years later when Jean Chretien served as Finance Minister he stated in his budget address that "significant reductions in the deficit can be expected." By 1990, our deficit had ballooned to $32 billion and our debt to $388.3 billion. When Finance Minister Michael Wilson rose to give his budget speech that year, he state:"We will reduce the deficit to $28.5 billion next year. We will cut it in half to $14 billion in three more years. We will reduce it further to $10 billion in the year after that."

Two things are consistent: (1) politicians often say one thing but do something completely different; and, (2) it doesn't matter what party's in power, the results are the same.

This sentiment was expressed in a recent poll released in the *Financial Post* which found that a majority of Canadians no longer trust politicians or governments to manage our fiscal affairs - at least voluntarily.

The solution increasingly being proposed is legislated limits: constitutional and statutory requirements that limit a government's ability to tax, borrow and spend. These limits can be imposed by pre-determined formulas or by voter approval through referendum. The most common form of legislated limits are balanced budget laws like those at the municipal level. Other forms include tax and expenditure limits (TELs).

The U.S. and Switzerland have some form of legislated limits in place. The Swiss require any law or regulation, including tax and spending, to go to the voters if requested by 8 of its 23 cantons or a petition of 50,000 voters. In the U.S., 49 of the 50 states have balanced budget requirements. Additionally, 23 states have tax and expenditure limits. Some TELs involve spending caps that can only be overruled by a super-majority (66%) of both state legislatures, or by a simple majority in a state-wide referendum. Other TELs cap taxes only, while some impose limits on both.

However, unlike the U.S. where constitutional changes require a super-majority in both Houses of Congress plus approval of the states, the implementation of such a law in Canada is comparatively simple. Section 44 of the amending formula of the Canadian Constitution allows for constitutional amendments that have to do with the operations of the federal government to be amended by a simple majority in both the House of Commons and Senate. Such a step would have to be sealed with the proviso that no changes or abolition of the amendment could be implemented without voter approval by referendum.

Balanced budget legislation would stop politicians from saying one thing and doing another.

Two provinces have passed "balanced budget legislation" - New Brunswick and Alberta. Saskatchewan has announced similar intentions. Manitoba has just introduced legislation, but it has been put on hold pending the outcome of the recently called provincial election. British Columbia passed a similar law in 1991, only to have it repealed in 1992. With the exception of Manitoba, these laws are weak in content and have little in the way of enforcement provisions, but they are a step in the right direction and will pave the way for improvements in the future.

Importantly, they are responding to the public's concern that tax restraint and fiscal responsibility on the part of politicians has been an abject failure.

Ghosts of Finance Ministers past

Concerning promises to reduce the deficit, taxpayers have good reason to be skeptical as a history of the last 20 years reveals. It's one more reason why a Taxpayer Protection Act is needed to establish and maintain fiscal sanity. Twenty years of good intentions have not balanced the budget. Quotes compiled by Jeffrey Simpson of the *Globe and Mail*.

Budget date	Finance Minister	Promise	Budget year	Government overspending (Federal deficit)	Accumulated overspending (Federal debt)
1975	John Turner	"I come now to specific measures. None is more important than the control of public expenditures."	1975-76	$6.2 billion	$33.9 billion
1976	Donald MacDonald	"Now that the recovery is well established and private spending is rising, it is equally appropriate that these record deficits should recede."	1976-77	$6.8 billion	$40.7 billion
1978	Jean Chretien	"Significant reductions in the deficit can be expected."	1978-79	$13.1 billion	$64.7 billion
1979	John Crosbie	"The fundamental objective of our fiscal plan is to bring about a steady reduction in our deficits."	1979-80	$12.0 billion	$76.7 billion
1981	Allan MacEachen	"I believe we must reduce our deficit and our borrowing requirements substantially."	1981-82	$15.5 billion	$106.5 billion
1982	Allan MacEachen	"The government cannot responsibly add to the deficit."	1982-83	$28.7 billion	$135.3 billion
1984	Marc Lalonde	"In the medium term the deficit will fall."	1984-85	$38.5 billion	$206.5 billion
1986	Michael Wilson	"When the government came to office, we encountered a debt problem of massive proportions...The buck was passed to us. Well, the buck stops here."	1986-87	$30.7 billion	$271.8 billion
1987	Michael Wilson	"While great progress has been made on the nation's debt problem, there can be no holiday from fiscal responsibility."	1987-88	$28.2 billion	$300.0 billion
1990	Michael Wilson	"We will reduce the deficit to $28.5 billion next year. We will cut it in half to $14 billion in three more years. We will reduce it further to $10 billion the year after that."	1990-91	$32.0 billion	$388.3 billion
1992	Don Mazankowski	"We will substantially reduce the deficit."	1992-93	$41 billion	$460.8 billion
1993	Don Mazankowski	"I am presenting a budget that will deliver...a strong positive initiative for a co-operative national attack on all government debt."	1993-94	$42 billion	$508.2 billion
1994	Paul Martin	"For years, governments have been promising more than they can deliver, and delivering more than they can afford. That has to end."	1994-95	$37.9 billion	$546.1 billion
1995	Paul Martin	Blah, blah, blah, blah, blah, blah, blah.....	1995-96	$32.7 billion (e)	$578.8 billion (e)

Ironclad resolve is needed to cut waste

It will take more than the feeble efforts thus far of the Chretien government to make substantial cuts in government spending, drastically reduce the deficit and put the country's fiscal position back on the road to recovery. It might just take a constitutional amendment calling for mandatory balanced budgets.

by Mel Smith

In his budget address a year ago, Finance Minister Paul Martin said "the days of government simply nibbling at the edges are over." In spite of Martin's courageous rhetoric, a year later our national debt continues to pile up at the rate of about $77,000 for every passing minute. Nibble indeed!

U.S. taxpayers are pushing for an amendment to the American constitution that would limit their federal government's ability to spend and borrow.

What will it take to jolt the federal decision-makers into concerted action to get the country's fiscal position back on the road to recovery? The first is a compelling sense of necessity to act decisively now. Those who exercise political power in Ottawa, and the bureaucrats who direct them, must be absolutely convinced in their own minds that we cannot go on in our profligate ways.

There is little evidence that this simple fact, which every thinking Canadian from Corner Brook, Nfld., to Qualicum, B.C., knows, governs the actions of our national government.

Smokes and windows are proof of it: hopelessly over-generous tax concessions on cigarettes greatly eroding the tax base, and large unnecessary expenditures for the right tint of glass in the Pearson building. "small potatoes" to be sure but symptomatic of a larger malaise.

It will also take an ironclad national resolve, across a broad constituency, to attack this curse relentlessly and systematically for many years to come, without let-up. Past experience shows that government restraint efforts evaporate as election day approaches.

What can be done to add discipline to the system that will instill the necessary resolve? The answer lies in a simple amendment to the Canadian Constitution to impose a balanced budget requirement on the federal government.

Such a provision would require that the budget be balanced by, say 1999 and every year thereafter. To make sure that it isn't too easy to repeal once passed, the provision should contain a clause that it could be altered or abridged in the future only by an affirmative vote of, say, two-thirds or three-quarters of the members of the House of Commons. No doubt it comes greatly to the surprise of many of my readers to be advised that such a constitutional amendment would neither require the approval of the provinces nor a national referendum. All it would require would be a resolution of the House of Commons and the Senate, because such an amendment comes within the category authorized by Section 44 of the amending formula. Section 44 allows constitution amendments that have to do with the operations of the federal government to be amended in this way.

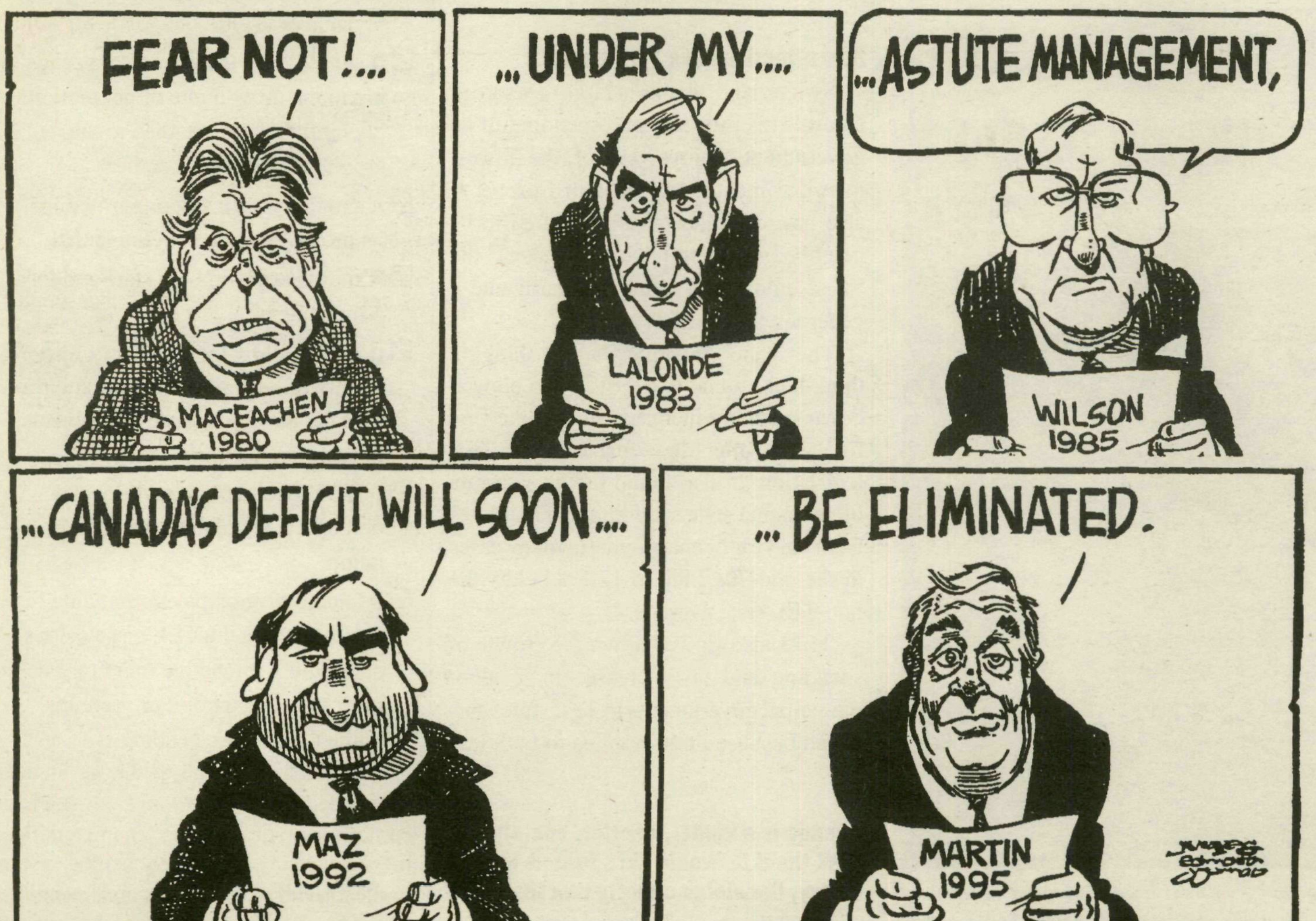
In this respect our amending procedure is as simple as apple pie, compared with that in the U.S. There, not only must both houses of Congress agree, but approval of three-quarters of the states is necessary.

Constitutionally imposed balanced-budget requirements have become an increasingly popular means of bringing discipline to government spending in various parts of the world. The constitutions of 31 U.S. states have such limitations, and 18 others have used statutes to impose balanced-budget limits. (Provincial governments take note.)

Such constitutionally imposed limits would also have the advantage of letting our political leaders off the hook from the incessant demands of insatiable pressure groups, and others who demand more and more government spending. Government could resist such demands on the grounds that the Constitution prevented further expenditure.

Obviously, a constitutionally imposed balanced-budget requirement would not, of itself, be sufficient to achieve a balanced budget, but it could provide the disciplinary framework for the federal government to get down to the serious business of cutting spending instead of merely continuing to "nibble at the edges."

Melvin Smith, Q.C., is a director of the Canadian Taxpayers Federation. Reprinted from the Financial Post's special section on DEBT & TAXES.



Why we need tax & expenditure limits on government!

The following questions and answers provide an overview of why we need Tax and Expenditure Limits (TELs) placed on government. ***This article is reprinted from the Financial Post's special section entitled DEBT & TAXES which was published with the assistance of the CTF.***

Why are tax and expenditure limits (TELs) needed?

The average Canadian family earns $57,696 and pays $27,203 in various forms of taxes. Sadly, taxes account for nearly as much as the average family's budget for shelter, food and clothing combined.

This has happened because taxation, spending and borrowing by governments ran out of control, outpacing inflation, economic growth or increases in personal incomes. Net public debt has gone from $475.8 billion in 1989-90 to $779.948 billion by 1994-95 - or from $17,379 a person to $26,768 a person.

Our polling shows that an overwhelming number of Canadians at all income levels are greatly concerned about the debt and deficit problem. Most interestingly, however, our poll reveals for the first time that a majority of Canadians - including Liberal voters - no longer trust politicians or government to manage our fiscal affairs. They support taxation and spending limits, which would transfer control over the public purse to the people through voter referendums.

Has anyone proposed a Canadian version of TELs?

Yes. Various individuals have championed the cause, but the biggest push has been by the non-partisan Canadian Taxpayers Federation in Edmonton, and its provincial affiliates. They have drafted a number of "Taxpayer Protection Acts" to promote the policy solution.

For instance, the Taxpayers Protection Act of Ontario proposed by the Federation is a 34-page proposal that would require, by way of legislation, a first step consisting of balancing the operating and capital budget by 1996/97. Once the budget is balanced, the second part of the Act includes:

- ☑ A tax cap. No new or increased taxes without a province-wide binding referendum.
- ☑ A debt-elimination period of 25 years.
- ☑ A mechanism forcing governments to report their progress in eliminating the deficit and repaying the debt.
- ☑ Financial penalties, such as fines or docking salaries, for the Premier and cabinet should they fail to meet the act's requirements.
- ☑ Provisions to increase taxes or spending during legitimate emergencies.

Because the Swiss require their government to go to the voters if it wants to spend more money or raise taxes, they have managed to keep their fiscal ship of state afloat. Above: Lake Geneva.

Where have TELs been put in place?

There are many varieties and some are more effective than others. Switzerland has had them in place for years. The Swiss require any law or regulation, including tax and spending, to go to the voters if requested by eight of its 23 Cantons or by a petition of 50,000 voters. (A petition threshold would have to be proportionately higher because Switzerland's population is only 6.9 million compared with Canada's 29.37 million.)

Also, any tax law in Switzerland requires constitutional approval and hence must go to the voters.

Some 31 U.S. states have constitutionally imposed balanced-budget requirements. Some 23 U.S. states have some form of tax and expenditure limit legislation, some with and some without balanced-budget restrictions.

It's a patchwork quilt. Some TELs involve spending caps that can only be overruled by a super-majority (66%) of both state legislatures, or by a simple majority in a state-wide referendum. Some TELs cap taxes only, rather than spending. Some impose limits on both or include accompanying balanced-budget legislation in addition to tax or spending restrictions.

How effective have TELs been?

Switzerland, thanks in large measure to controls over the size and spending of its government, enjoys one of the lowest marginal income tax rates in Europe. It also has low sales taxes compared to its neighbours. Despite lower taxes, the Swiss enjoy high living standards and a generous social safety net.

The Cato Institute, a Washington think-tank, found that TEL states slowed down spending increases during the first five years after they enacted their TEL legislation. It also found the growth rate of per capita state spending in TEL states from the year of enactment (in many cases in the mid-70s), fell to 12.1% below the non-TEL state average.

TELs also slowed down the growth of spending and tax increases in local or municipal governments in TEL states surveyed because limits applied to both levels.

Canada is a kinder, gentler, society than the U.S. Would TELs turn us into a stingy, Darwinian country like the U.S.?

No. TELs are merely sound fiscal policy, not social policy.

Most Canadians do not realize that the U.S. spends a greater proportion of its budget on social entitlements than does Canada. This is because the sociological profile of the U.S. is totally different. Its population is older, its health care for seniors and persons on public assistance is considerably more expensive and its social safety net is costlier because it has a proportionally larger underclass to support than does Canada.

Is there an ideal TEL?

Last year, in a definitive study called "Taming Leviathan: Are Tax and Spending Limits the Answer?", the Cato Institute analyzed the strengths and weaknesses of all existing U.S. TELs. It came up with a blueprint for an ideal TEL with the following characteristics:

- ☑ It should originate with and be approved by the voters, where possible, rather than the legislature.
- ☑ It should be constitutional rather than statutory.
- ☑ It should apply a cap to 100% of the budget rather than to only certain categories.
- ☑ It should cap spending rather than revenue or taxes.
- ☑ It should limit the growth of spending to the growth rate of population, plus inflation, rather than to the growth of personal income.
- ☑ It should require voter approval for its provisions to be circumvented.
- ☑ It should apply to both state and local governments.
- ☑ It should allow for transfer of responsibility to local governments and provide for the appropriate adjustments in each jurisdiction's limit.
- ☑ It should not require additional action by the legislature for implementation.
- ☑ It should give taxpayers standing to sue to enforce the TEL's provisions and require injunctive relief to prohibit any illegal taxes or spending while a lawsuit is pending.

Cato Institute analyst Dean Stansel also noted that even though most TELs contain only some of these characteristics, these laws have effectively helped to rein in the growth of state taxes and spending.

Continued on page 15

Why we need tax & expenditure limits on government! - *continued from page 14*

Where have TELs failed?

The Cato Institute concluded that TELs in Louisiana, Montana and South Carolina were ineffective, with spending and taxation exceeding national averages.

"The reasons some TELs succeed and others fail can be found in their design," Stansel wrote.

The three state TELs were ineffective for various reasons. But often limits are incomplete because they apply to state tax revenue only and not to other forms of government revenue, such as charges or user fees. Some TELs capped only portions of the budget and not 100% of expenditure, as should be the case.

The CATO research showed that TELs arising from voter initiatives - as opposed to political initiatives - yielded better results because they represented widespread public support for spending limits. TELs initiated and approved by politicians were often purposely sandbagged or were designed to be easily circumvented.

Despite the flaws, TEL states were more fiscally responsible than non-TEL states, the Cato Institute concluded.

"In five states where TELs were initiated and approved by voters, spending growth slowed relative to the U.S. average," Stansel wrote. "In the eight states where they were both initiated and approved by the legislature, spending growth actually rose relative to U.S. averages."

How can we get TELs?

There are two ways to get action: through public pressure, and the resulting endorsement by prominent politicians or leaders. That's why, if you support TELs, you must write to your elected officials and lobby governments at all levels to adopt them.

Besides, TELs benefit politicians and governments.

How can TELs possibly benefit politicians?

TELs provide a discipline to a bureaucracy, making management decisions easier to make. They also allow politicians to say "no" to demands on the basis that statutes or referendums forbid additional spending.

Referendums and initiatives are a way for taxpayers to control governments.

James Blanchard, the U.S. Ambassador to Canada, lived with balanced-budget legislation, as well as tax limits as Michigan's governor between 1983 and 1991. The result was his government inherited a US$1.7 billion deficit, but balanced the budget for eight years through dramatic cuts and temporary taxes.

In an interview, he said he was a fan of controls because they force governments to undertake tough steps and to say "no" to special interest groups, lobbyists and others who cavalierly ignore fiscal problems.

"Sometimes limits make a politician's job easier and sometimes it makes the job harder. I've been through this stuff and get kudos later on but not during the time. It's not a lot of fun, but necessary. When you take tough steps to reduce deficits you get no great political mileage. Business congratulates you, some editorial writers do too, but that's less than 1% of the electorate."

Blanchard had to live with restrictions, but pointed out that balanced-budget legislation on its own is not sufficient.

"We had tax limits. We couldn't raise sales taxes without voter approval. We also had balanced-budget legislation, although you can circumvent that by creative book-keeping," he said.

He said he lived with restrictions and balanced the budget by cutting spending and limited the future growth of programs by temporarily raising state income taxes (from March 1983 to 1986) to 6.35% from 4.6%, then back down to 4.6% again.

"Reasonable limits are good," Blanchard said.

In Canada, Premier Ralph Klein of Alberta, in recent polls, registers the highest popularity level in the country, at 62%, after imposing tough spending cuts and balancing the budget. This illustrates that a politician who promises tough medicine and executes it won't suffer politically.

What is the best way to limit spending?

Most TELs in the U.S. restrict the growth of government to the rate of growth of personal income so that costs don't outstrip economic growth.

"However, the evidence suggests that linking spending to population growth plus inflation is much more restrictive," Cato concluded."Throughout most of the 1980s, the economy was booming, plus personal income rose at abnormally high rates of 30% in real terms from 1980 to 1990. Meanwhile, the U.S. population grew at only a modest rate of 10%. Thus a TEL limiting spending to the growth rate of personal income would have slowed spending growth to 30% from 42%."

Should taxpayers be allowed to spend money on themselves and then force the next generation to pay for it? Balanced budget legislation would stop the taxation of future generations.

What happens in times of slow or no growth?

Politicians can ask the public for permission through a referendum to increase taxes and/or spending. Some TELs allow increases beyond criteria limits if a "super-majority" (66%) of legislators passes them. There should also be a provision for increases during times of emergency.

How would TELs affect our social programs: medicare, unemployment insurance, pension?

TELs do not address "how" governments spend money. They only address *how much* they have to spend. Limits do not preclude the existence of any affordable programs. Likewise, tax and expenditure limits would not preclude other tax reforms such as closing loopholes or other tax rule adjustments as long as they were revenue neutral.

Is Canada's parliamentary system suited to this type of direct democracy - tax and spending limits and referendums?

Switzerland functions very well as a parliamentary democracy with voters in control over taxation and all other legislation.

TELs also remove the tyranny of special interest groups who make constant demands on governments to spend, spend, spend. TELs allow politicians to hear the policy beliefs of the actual grass-roots and not merely be bombarded by well-organized, taxpayer-funded special interest groups.

In Canada, TELs can be easily put in place as constitutional amendments - certainly when compared with the situation in the U.S., constitutional expert Mel Smith says (see article pg. 13).

Do tax and spending limits impair the ability of governments to do their jobs?

No. They merely force governments to do their jobs within the permitted tax resources the public has given them.

What's to stop politicians from simply borrowing more to offset the fact that they cannot increase taxes?

Anti-borrowing measures can also be put in place. Switzerland charges a 35% withholding tax to foreigners who buy its government bonds, which is a disincentive. Some federal governments limit the ability of lower levels of government and corporations to borrow in foreign currencies from foreign sources.

Won't the average taxpayer always vote down tax hikes in a referendum and, if so, will government be unable to provide essential services some time in the future?

That has not been the experience in Switzerland or the U.S. For instance, three times the Swiss government asked Swiss voters to approve a value added tax similar to our GST in recent years, and three times it was turned down. Finally, in 1993, it was approved by 68% of voters and became effective this month.

Governments and politicians in jurisdictions with controls must simply make a compelling case for tax or spending hikes. Requests to spend more on capital projects are often approved. Those asking for open ended revenue hikes are often refused.

Continued on page 16

BALANCED BUDGET LEGISLATION CONTROLLING SPENDING & TAXATION

We need a 'Bad Cop' to control spending

by William Watson

Everyone needs a bad cop.

When people phone me up, as they often do, and ask me to go places to speak, it's sometimes useful to be able to say, "I'd love to, but I'll have to check with my wife." (In truth, I do have to check with my wife, but I'm happier about that fact of married life in some cases than others.)

In hockey and baseball, the owners wanted salary caps so they could say to players, "I'd love to give you more but the salary cap won't let me."

Governments often find it useful to be able to say to industry groups seeking protection, "We'd love to help you out, but the GATT (or the FTA or the NAFTA) won't let us."

When silly new public expenditures are being sought, instead of offending the interest group making the request by saying they should be ashamed of themselves, politicians are happy to be able to say, "Personally, I'm on your side, but the Minister of Finance says it's simply out of the question."

Be it wife, a salary cap, the GATT or a Minister of Finance, pointing to higher authority and shrugging a sympathetic, "Love to, but can't", is a human habit only about 10 minutes younger than authority itself.

In facing up to our public expenditure problems, we should use every helpful human trait we can. The problem is: who is the Minister of Finance's bad cop?

In New Zealand, the central bank governor's job depends on his hitting his inflation target - which is essentially to have no inflation. By all reports, the prospects of unemployment wonderfully concentrates a central banker's mind.

In this country, we haven't had a balanced federal budget since 1970, yet when was the last time a finance minister resigned in disgrace because he didn't hit his fiscal targets?

Even baseball owners need a salary cap as their "bad cop" to control their spending habits.

Keep thinking.

The current finance minister's bad cop is the Liberal party's Red Book. In fact, Paul Martin has made such a fuss about hitting the fiscal targets it sets out, he may well have to resign if he misses them. He'll certainly suffer a big political cost, probably one large enough to end any further political ambitions he may have. That's also what would have happened to Ralph Klein had he weaseled out of his campaign promises to cut and cut big.

Unfortunately, the Red Book isn't that bad a cop. It sets out deficit targets, not expenditure targets, so there's always the possibility the government will try to raise taxes to meet them. And the targets themselves are ridiculously easy: 3% of gross domestic product at the top of an economic cycle is the fiscal equivalent of hitting the side of the barn door.

It would be best, of course, to have a real, live bad cop, in the person of a Supreme Court, to enforce a constitutional provision against excessive increases in expenditure. Since anything constitutional is a non-starter in modern Canada, we'll have to be content with an act of Parliament limiting overall, not just operating, expenditure.

The obvious drawback is that Parliament can change its mind. But that doesn't mean overriding the act wouldn't be embarrassing.

Canadian politicians don't embarrass easily, but it has happened from time to time.

John Diefenbaker's Bill of Rights was a simple act of Parliament, yet it had at least a limited effect. The infamous "notwithstanding" clause allows politicians to override Pierre Trudeau's Charter of Rights, but they suffer politically when they do.

Mackenzie King broke his government's promise not to send conscripts to combat zones in the Second World War, but before doing so felt it necessary to get Canadians' permission in the 1942 conscription referendum. Expenditure limits might develop the same moral authority.

In committing the U.S. to land a man on the moon by the end of the 1960s, John Kennedy told the story of the Irishman who, faced with a high fence, threw his hat over it to help bolster his courage in climbing it.

Legislated expenditure limits are about throwing your hat over the political fence to make sure that, during the difficult times to follow, you stay committed to the task you have set yourself. They may not appeal to the current federal government. But there will be other federal governments, and there are other Canadian jurisdictions where they may be useful.

And even in Jean Chretien's Ottawa, there's always the possibility the International Monetary Fund will insist on them.

William Watson teaches economics at McGill University in Montreal. Reprinted from the Financial Post's special section on DEBT & TAXES.

Why we need tax & expenditure limits on government! - *continued from page 15*

How would government go about conducting a referendum, and how much would doing this cost? Wouldn't conducting a referendum in a country Canada's size be complicated, unwieldy and time-consuming?

Referendums are typically held in conjunction with elections so that additional costs are not required. Special referendums such as the Charlottetown Accord cost tens of millions of dollars because the cumbersome election process of canvassing and polling was used. But this is not necessary. Existing technology means that referendums could be conducted by telephone, interactive television or by mail.

Referendums in Canada got a bad name after the Charlottetown Accord, and the Swiss or American experience is that they do not have to be complicated, unwieldy or time-consuming.

Would government by referendum needlessly bog down the governing process?

No. TELs would impose a discipline on government bureaucracies, which would, theoretically, force them to streamline and jettison many of their own programs or departments.

As things now stand, governments are bogged down. This is because they can spend as much money as they wish by raising taxes and borrowing more. Lacking fiscal discipline, they proliferate, create empires and remain inefficient.

The current governmental juggernaut, with its duplication and overlap, is the principal reason why TELs are necessary. By controlling the purse strings, the public can put an end to the current form of open-ended financing through taxation and borrowing. By stopping the endless flow of funds, voters would force politicians and governments to set priorities to save money, to withdraw from areas unless they were forced to participate and to stop the duplication and growth of governments.

So what happens if we don't get TELs?

Canada will continue its deteriorating debt/deficit drift. Real interest rates will remain high, thus costing jobs, and taxes will continue to climb to even more uncompetitive levels.

Our social programs will be imperiled as debts pile up. Already, interest payments made by all governments are about $60 billion a year, nearing the $71 billion spent on our health care system.

Government overspending threatens our social safety net. Only fiscal responsibility can save it.

Legislated balanced budgets in Canada

While the American Congress attempted to implement a Balanced Amendment to its constitution, the Canadian government is reluctant to give such a guarantee to taxpayers.

In fact, our federal government plans to add an extra $100 billion onto our existing debt before its mandate runs out. That is, unless international money markets intervene and force austerity upon our country's elected officials.

Taken a step further, comparing state and provincial governments is slightly more encouraging.

Most American states have some kind of legislation in place to prevent free-spending politicians from driving their taxpayers into debt. For example, in California their state constitution requires the Legislature shall not create a debt of more than $300,000 without a vote of the people. In Connecticut, one year deficits are allowed, but they must be paid off the following year. Kentucky is compelled by law to set aside 2.5% of their budget every year in the event of a revenue shortfall. And, in Delaware, the constitution says the state can only spend 98% of their estimated annual revenue and the other 2% must go into a special reserve fund in the event of an unexpected revenue shortfall.

The California state government can't create a debt of over $300,000 without voter approval.

In Canada, although far slower to realize the importance of such balanced-budget legislation, we are seeing some movement on the part of our elected officials.

For instance, in British Columbia, the Legislature passed the Taxpayer Protection Act (TPA) in 1991. It set out to protect taxpayers from tax increases until March 31, 1994, and contained a provision to prevent the introduction of new taxes during the "tax-freeze" period. It also set out to commit future provincial governments to balance their budgets over a five-year cycle. To achieve this, governments would be required to adjust their spending rather than raise taxes.

Unfortunately, only a few days past the first anniversary of its passing, the newly elected NDP Harcourt government repealed the legislation. Harcourt and colleagues may now be responding to public pressure and have announced they are looking at re-introducing balanced-budget legislation in the spring.

In Alberta, the government has recently introduced Bill 1 (Alberta Taxpayer Protection Act) and Bill 6 (Balanced Budget and Debt Retirement Act). Bill 1 prevents the legislature from imposing a sales tax in Alberta unless approved by taxpayers in a referendum. Bill 6 legislates balanced budgets beginning in 1997-98, and the paydown of Alberta's net debt by 2022.

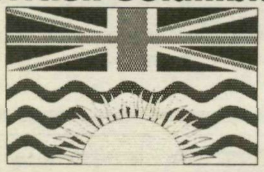
In a 1991 plebiscite in Saskatchewan, citizens voted over 80% in favour of balanced budget legislation. Despite this massive mandate, the Roy Romanow government has not yet introduced such legislation, although he has promised it. The government has balanced its budget. However this has been achieved to a large degree by increasing taxes, hiking Crown owned utility rates, and raising resource royalties. Government spending in the province is up by $1.2 billion more than what it was when they took office.

In Manitoba, the government just recently proposed the toughest legislation in Canada. If passed, the Manitoba Balanced Budget and Taxpayer Protection Act ensures among other things that all future governments must balance their budgets and calls for voter approval before taxes can be increased (see page 19).

In Ontario, where they have the highest per capita deficit in the country, and where they are looking at a looming provincial election, neither the governing New Democrats of Bob Rae, nor the Liberal opposition party have made any kind of commitment or endorsement for Balanced Budget Legislation. However, Ontario Conservative leader Mike Harris has put his support behind such legislation.

Balanced budget proposals by CTF's provincial affiliates

British Columbia



A Taxpayer Protection Act is in the process of being formulated by the B.C. Taxpayers Association and is to be presented later in 1995.

Alberta

Taxpayer Protection Act as proposed by the Alberta Taxpayers Association:

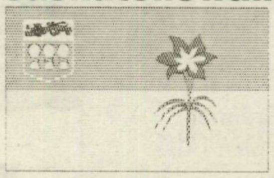
- Financial penalties if the government fails to meet legislation's deficit targets.
- Freeze all tax rates for a four-year period.
- Prohibit the introduction of any new taxes.
- An escape mechanism which can only be invoked if a legitimate state of emergency is declared by a two-thirds vote of the legislature.

Manitoba

Taxpayer Protection Act as proposed by the Manitoba Taxpayers Association:

- Require the government to balance its budget by fiscal 1995-96 and each year thereafter.
- A tax rate freeze period during the debt elimination period unless supported by 50% of eligible voters in a binding referendum.
- A clear plan for debt elimination by 2021, and annual progress reports.
- Provisions to allow the government to exceed expenditure limits only in state of emergency, providing the money is applied towards the emergency and repaid over the next two years.
- Financial penalties for politicians who do not meet deficit elimination requirements.

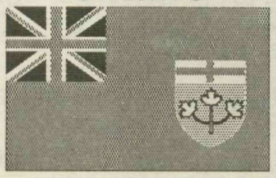
Saskatchewan



Taxpayer Protection Act as proposed by the Saskatchewan Taxpayers Association:

- Balanced budget by 1996 and outlaw future deficits, except in the case of emergency. This would make it possible to eliminate the province's net debt over the next 25 years.
- Protection from a higher tax burden by allowing citizens to vote in a referendum to approve future tax hikes.
- Financial penalties for politicians who break the law.
- Protection from inadequate accounting principles which have been used in the past to hide true debt and deficit figures.

Ontario



Taxpayer Protection Act as proposed by the Ontario Taxpayers Federation:

- Require the provincial government to balance its budget by fiscal year 1996-97 and every year thereafter.
- A debt elimination period, requiring the province's net debt to be eliminated by 2022, 25 years after the budget is balanced.
- Strict reporting requirements on the government's progress towards deficit and debt elimination.
- Financial penalties for government if they fail to meet the Act's balanced-budget requirement.
- Provisions that would allow the government to relax the balanced-budget requirements in cases of legitimate emergencies.

More control needed over how tax money is spent

by David Frum

One argument that opponents of stricter control of tax and spending will raise is that these controls are un-Canadian. Initiatives and referendums are supposedly alien to our parliamentary system of government. They're too American, too Swiss – anyway, too foreign.

Oddly enough, many of those who dislike referendums strongly favour the Charter of Rights, and judicial supervision of parliamentary law-making - even though judicial review fits as badly into a parliamentary scheme as do referendums. Why support for one and not the other?

Canada broke with Westminster traditions back in 1867, when we grafted parliamentary style government to federalism. The British parliament is the supreme lawmaking body in the land; the Canadian Parliament has always been circumscribed by constitutional rules. And over time, the Canadian Parliament has consented to more and more such limits - the Charter being just the most recent and the most dramatic.

Unfortunately, in the past, limits on Parliament have tended to protect not the citizen, but the people who thrive and prosper at the expense of the taxpaying citizen. The pre-1982 Constitution limited the powers of the federal government for the benefit of provincial governments. The post-1982 Constitution limited the powers of the federal government for the benefit of provincial government. The post-1982 Constitution refuses to protect private property rights, but does, for example, guarantee reverse racial preferences (Section 15, subsection 2 of the Charter of Rights and Freedoms).

So the real shock of any initiative and referendum system would not be that the powers of Canada's parliament are being limited - they've been limited before. The real shock would be that, for the first time, those powers are being limited for the benefit of taxpayers and private citizens. No wonder, then, that the idea generates panicky defensiveness on the part of the beneficiaries of lavish government expenditure.

Now to say that initiatives and referendums are not un-Canadian doesn't mean that they're necessarily a good idea. The American experience - especially California's - shows that they can be manipulated by grasping special interest groups every bit as much as ordinary legislation can. In California, referendums have been exploited to fix insurance rates at below-market prices and to inflate education spending.

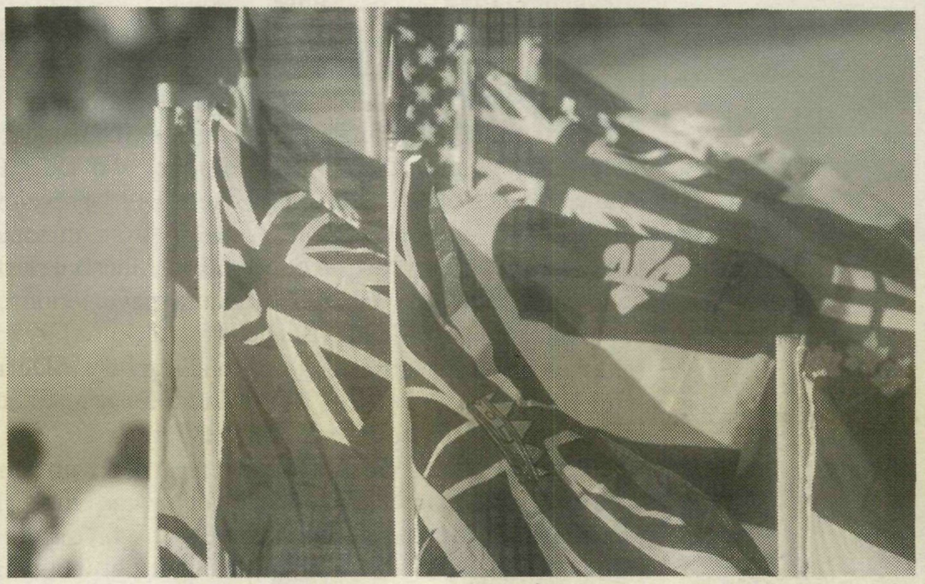
A glance at the roster of this country's elected leadership doesn't offer anti-taxers much hope that the results would be very different if the people voted directly. I rather suspect that, if asked to vote for or against an increase in medicare spending, a solid majority of Canadians would say, "Fine! Go ahead!" It's worth remembering that two-thirds of Canadians voted for the three parties that advocated fiscal recklessness - the Liberals, the Bloc Quebecois and the New Democratic Party - in the last federal election.

Advocates of referendums would do better to focus on the tax side. Ask the people how much tax they're prepared to pay and then give government the job of cutting spending accordingly. And, to protect the country against politicians who seek to escape their dilemma by borrowing, referendum advocates might ponder one added measure of direct democracy: referendums to permit governments to borrow.

David Frum is an author and columnist. - Reprinted from the Financial Post's special section on DEBT & TAXES.

Write the Prime Minister or your provincial Premier

If you would like to see Taxpayer Protection measures passed at the federal level and /or in your province write:



Canada

The Right Honourable Jean Chretien, Prime Minister
Room 309-S, Centre Block, House of Commons, Ottawa, ON, K1A 0A6 (613-992-4211)

British Columbia

The Hon. Michael Harcourt, Premier
Room 156, West Annex Parliament Bldgs., Victoria, B.C., V8V 1X4 (604-387-1715)

Alberta

The Hon. Ralph Klein, Premier
307 Legislative Bldg., 10800 - 97th Ave., Edmonton, AB, T5K 2B7, (403-427-2251)

Saskatchewan

The Hon. Roy Romanow, Premier
226 Legislative Bldg., Regina, SK, S4S 0B3 - (306-787-9433)

Manitoba

The Hon. Gary Filmon, Premier
204 Legislative Bldg., Winnipeg, MB, R3C 0V8 (204- 945-3714)

Ontario

The Hon. Bob Rae, Premier
Queen's Park Toronto, ON, M7A 1A1 (416-325-1941)

Quebec

Premier Ministre, Jacques Parizeau
Ed.J, 3e et., 885, Grande-Allee est, Quebec, G1A 1A2 (418-643-5321)

Prince Edward Island

The Honourable Catherine S. Callbeck, Premier
Shaw Bldg., 95 Rochford St., P.O. Box 2000, Charlottetown, PEI, C1A 7N8 (902-368-4400)

Nova Scotia

The Hon. John P. Savage, Premier
P.O. Box 726, Halifax, NS, B3J 2T3 (902-424-6600)

New Brunswick

The Hon. Frank McKenna, Premier
Centennial Bldg., P.O. Box 6000, Fredericton, NB, E3B 5H1 (506-453-2144)

Newfoundland

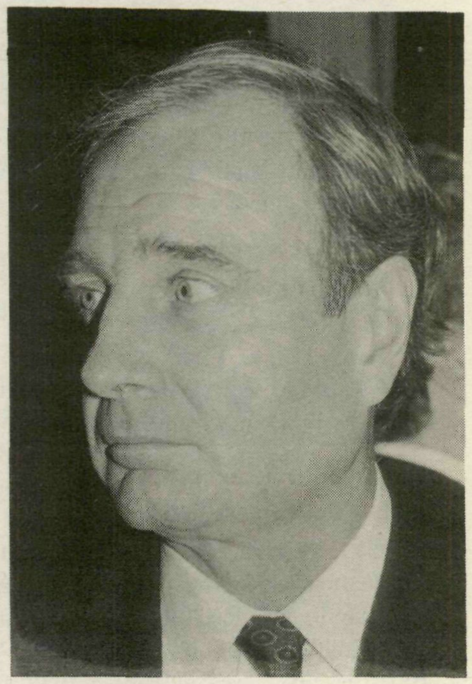
The Hon. Clyde K. Wells, Premier
Confederation Bldg., 8th Floor, St. John's, NFLD, A1B 4J6 (709-729-3570)

ACTION

Write......

When's the last time you wrote a politician?

Write: Prime Minister Jean Chretien



Finance Minister Paul Martin

Manitoba's proposed

Balanced Budget and Taxpayer Protection Act

Although it is the third province to officially introduce a form of balanced budget legislation, Manitoba may be the only place in the country where taxpayers will have real protection in the future.

In releasing the budget, Manitoba Finance Minister Eric Stefanson announced historic legislation that, if passed, would ensure that all future governments must balance their budget, and would also require voter approval in a province-wide referendum for tax increases.

The legislation would impose fines on the Cabinet Minister if his/her department does not meet budget projections. They can lose 20% of their salary for running one deficit and 40% if they run a second one.

If the legislation is passed, Manitoba taxpayers will be able to control the spending and taxation habits of their government.

There would also be a debt retirement fund set up so that the government could retire the province's $7 billion of accumulated debt over a 30 year period.

The only exceptions allowed by the tough proposed legislation would be during times of natural disasters, when Canada is at war, or if there has been a revenue reduction of 5% or more.

In order to ensure the act couldn't be changed by future free-spending politicians, the legislation has a provision written into it that public hearings must be held before the Act can be amended or repealed.

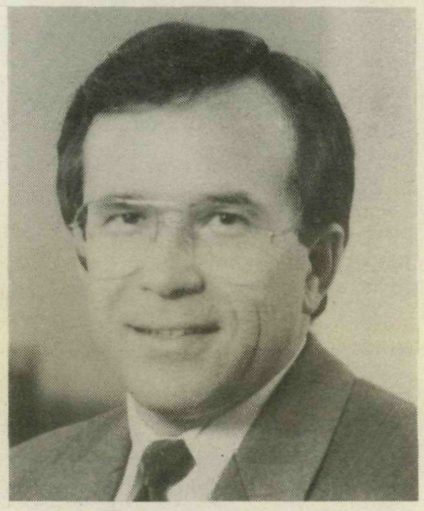
Manitoba Taxpayers Association Provincial Director Peter Holle praised the Balanced Budget Act as model legislation for the rest of the country, and called on both opposition leaders to endorse it as well.

Two other provinces - Alberta and New Brunswick - have introduced similar pieces of legislation, but neither provided the taxpayer protection that Manitobans could achieve.

For example, Alberta's "Deficit Elimination Act" sets out to maintain a balanced budget every year after 1996/97. However, there are no penalties imposed for politicians who fail to meet the targets, and there is nothing written into the legislation that would prevent a future government from achieving a balanced budget through tax increases.

New Brunswick's "Act Respecting the Balancing of the Ordinary Expenditures, and Ordinary Revenues of the Province" breaks down spending and revenues into time blocks (four year periods) whereby the overall expenditures and revenues must balance. However there are no penalties for failing to achieve that period balance, neither is there a limit on tax increases and there is no provision for debt retirement.

The Manitoba legislation is by far the most comprehensive legislation in Canada, and it shows that governments are starting to make taxpayer concerns a priority. The legislation has been put on hold, pending the outcome of the recently called provincial election.



The Filmon government proposed a taxpayers' protection act for Manitoba that would reduce the salaries of cabinet ministers if they overspend their department's budget.

Canadians want control of taxes, spending, and debt

Canadians agree — the country's taxes, spending and debt are out of control, and as taxpayers they want to be given some authority.

According to a recent poll conducted by Financial Post/Compas Inc., 86% of Canadians polled believe that controlling taxes, spending and the debt are "extremely" or "very" important. As well, 65% of respondents said direct voter control over taxes is "extremely" or "very" important. And, 70% said direct voter control over spending is "extremely" or "very" important.

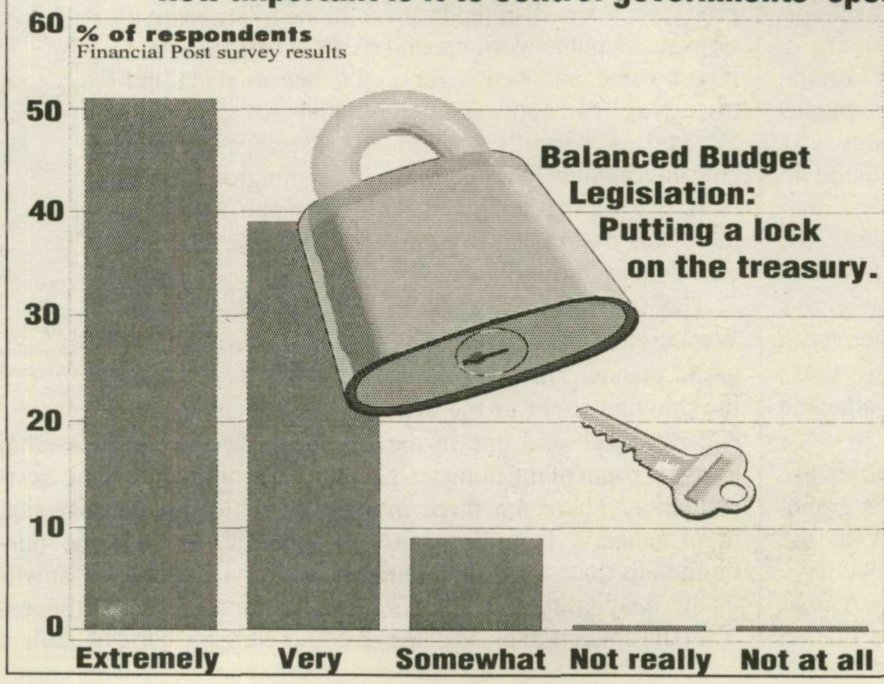
When voters were told the total debt of Canada's federal and provincial governments was calculated at $750 billion, or $39,000 per taxpayer, 90% replied government spending controls are "extremely" or "very" important.

An interesting finding was that Canadians of virtually all income brackets agree. Concern over taxes was expressed by 76% of respondents at the less than $30,000 income level and 75% at a $70,000 plus income. Government spending was an "extremely" or "very" important concern for 77% of respondents below $30,000 and 88% of respondents above $70,000. The level of debt was a major concern of 85% of the below $30,000 income bracket and 87% of those earning more than $70,000 annually.

When respondents were asked their preferences as to the types of controls, 56% preferred referendum-style controls over taxes, and 55% preferred referendum-style controls over spending. The preferred format is that politicians should have 66% support in a direct ballot of voters, before taking a course of action.

Some 2,586 Canadians were asked a series of questions that focused on how they felt about tax and budget issues and the role they saw for themselves in tax, budget and expenditure policy. Overall results can be said to be accurate to within two percentage points, 19 times out of 20.

How important is it to control governments' spending?



Support for spending controls rose to 90% after respondents were told the size of the debt. They were asked: "Just recently, the total debt of Canada's federal and provincial governments was calculated as being $750 billion or about $39,000 for each taxpayer. Given this figure, would you say that controlling government spending is extremely important, very important, somewhat important, not really important, or not at all important?"

Canada bankrupt?

An article in the January 12, 1995 edition of the *Wall Street Journal* didn't start the federal government's year off on a cheery note.

Its headline somberly read, "Bankrupt Canada?" According to the article, the United States not only has a nation to the south flirting with financial disaster, namely Mexico, but now Canada to the north appears to be approaching the financial aby$$. The article goes on to say that Canada has become "an honourary member of the Third World in the unmanageability of its debt problem."

In terms of the OECD, which represents the 25 most industrialized nations in the world, Canada has the second highest debt to GDP ratio. The GDP represents the size of a country's economy, and reflects the government's ability to tax and pay off its debt. Only Italy exceeded Canada's debt to GDP ratio. However, there is one critical difference between Canada's and Italy's debts. Most of Italy's debt is financed domestically, while nearly 40% of Canada's debt (federal and provincial) is carried by foreigners. Due to the limited amount of money available for borrowing in Canada, and because all three levels of government have such an insatiable demand for cash, they must go outside the country to borrow money.

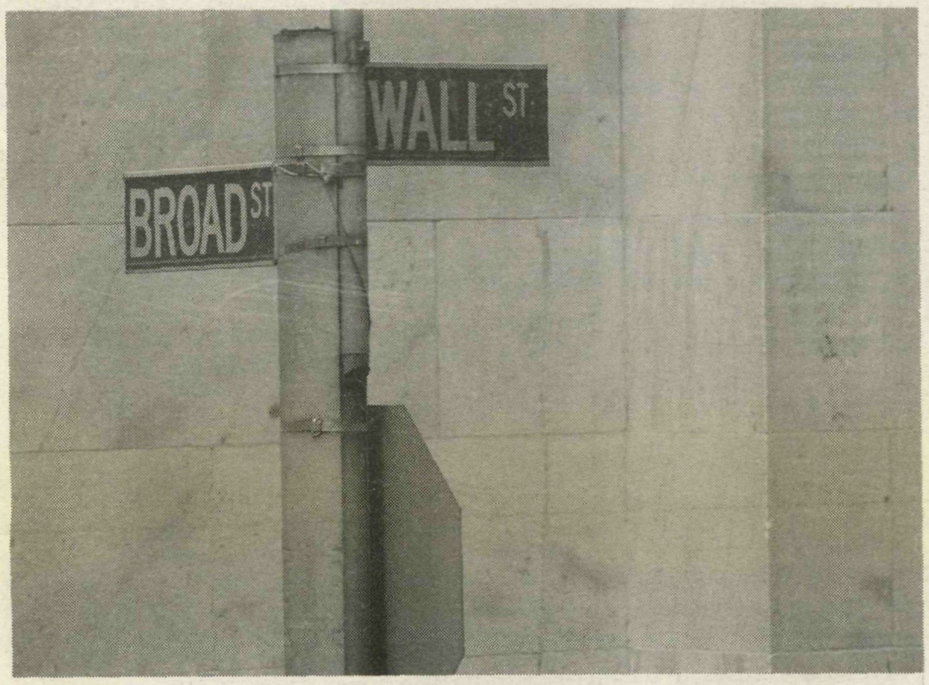
Unfortunately, the *Wall Street Journal* is read by American bankers and money managers - all the wrong people if you are trying to convince foreign lenders you're a good credit risk. Even hints of being likened to Mexico can send shivers through the credit market. The article reflects a growing international concern about Canada's deteriorating fiscal condition. As a result of this increasing wariness, the federal government is forced to pay higher interest rates to entice foreign lenders.

Another factor that impacts our ability to borrow money is the declining value of the Canadian dollar. Despite the fact foreign investors are earning interest on the money they lend to Canada, they can actually lose money or see their earnings substantially reduced if the value of the Canadian dollar falls in relation to their own currency. Again the federal government must counter this with higher interest rates. At the peak of New Zealand's debt crisis, interest rates hit 18%.

So why is the dollar declining? People outside of Canada have to sell their own currency to buy Canadian dollars that are then used to buy Canadian goods, bonds and shares of Canadian corporations, or to buy Canadian government bonds. There are also professionals who play the dollar markets, gambling that the Canadian dollar will go up or down in relation to other currencies. In fact, transactions of this nature are often so large as to inflate or deflate the external value of the dollar. Canadian dollars are bought and sold, just like any other commodity. Huge demands for Canadian dollars by holders of foreign currency will drive its value up. If you have foreign investors selling off Canadian bonds, as is happening right now, the value of the dollar drops because the proceeds from these sales are converted back into other currencies (such as the U.S. dollar, German mark, or Japanese yen). This is a simple function of more supply and less demand.

So, this is where the Bank of Canada steps in. One of the objectives of the Bank is to ensure an orderly transition from one price level to another and maintain a stable market where possible. The Bank has reserves of foreign currency which it uses to buy Canadian dollars if its value starts to go down. However, it's not always successful and recently all the Bank of Canada has been able to do is slow the free fall of the Canadian dollar.

If Canada reaches the point where foreign investors are unwilling to lend us any more money, we will be in dire straits. At that point, the federal government will be forced to do what a number of other countries have already done and approach the International Monetary Fund (IMF) for financial help. Unfortunately, going to the IMF represents the equivalent of a business going into receivership. While the IMF doesn't take direct control of a country, as a receiver does, it nevertheless wields tremendous influence. Some of the conditions for lending money can include forcing a country to sell off assets (privatize), slash spending, cut social programs, increase revenues, if possible, and lay-off thousands of public-sector employees.



With Canadian governments so dependent on foreign lenders, we are quickly losing control of our own future.

Now ain't that grand!

What do Georgetown, Guyana; Lima, Peru; Dakar, Senegal; Jakarta, Indonesia; Ankara, Turkey; Seoul, Korea; Vienna, Austria; and Damascus, Syria all have in common?

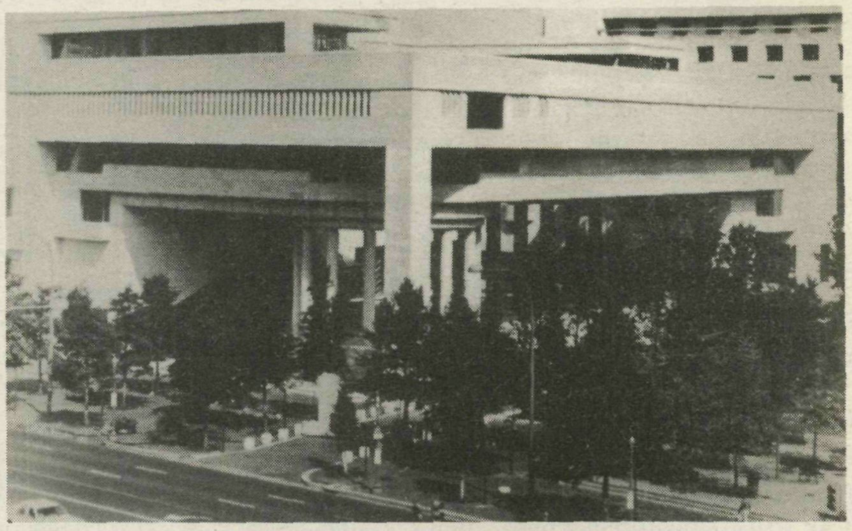
They are all the proud residences of grand pianos, courtesy of Canadian taxpayers.

The Department of Foreign Affairs has 74 grand pianos distributed throughout 51 countries. Most are found in the official residences of Canadian Embassies. Until the 1960s, when the policy was changed, every Embassy was automatically furnished with a grand piano; today only those with cultural affairs attached receive grand pianos.

A number of countries are home to more than one grand, and topping the list is the United States, where we have 11. Most of these are Yamahas, which on today's market start at over $17,000. Although we asked for the brand name and model, in most of the US cases, the model number was not provided. However, according to a Yamaha representative, the company had produced a small limited edition grand piano with special inlaid wood and finish for a price tag of approximately $90,000. Apparently the federal government purchased at least one of these. However, there was no indication if any ended up at Foreign Affairs.

The Canadian Embassy in Washington, D.C. has five grand pianos. There is one in the drawing room of the official residence and one in the drawing room of the minister's residence. There are three in the Chancery, including one on the 6th floor foyer, another in the hospitality suite, and a Yamaha concert piano is in the auditorium. Depending on the model, it could retail today for as much as $95,000.

There is also a grand piano sitting in the living room of the official residence of the Canadian Consulate General in Seattle, Washington. This is the same residence where we have a garden worth $750,000, reverently referred to as Canada's Hanging Gardens of Babylon. Two years ago an internal audit recommended the residence, which is a heritage site, be sold. Even with the purchase of a prestigious downtown apartment, taxpayers could earn millions of dollars in the transaction. The Consulate General living in the residence at that time vehemently opposed this suggestion.



There are five taxpayer-funded grand pianos kicking around the Canadian Embassy in Washington, D.C.

There are at least two other concert pianos in our possession - a Yamaha concert piano in London, England, at the Canadian High Commission and a Steinway concert grand at the cultural centre in the Canadian Embassy in Paris. The Canadian Embassy in Paris also has three grand pianos, and we have two more kicking around in England.